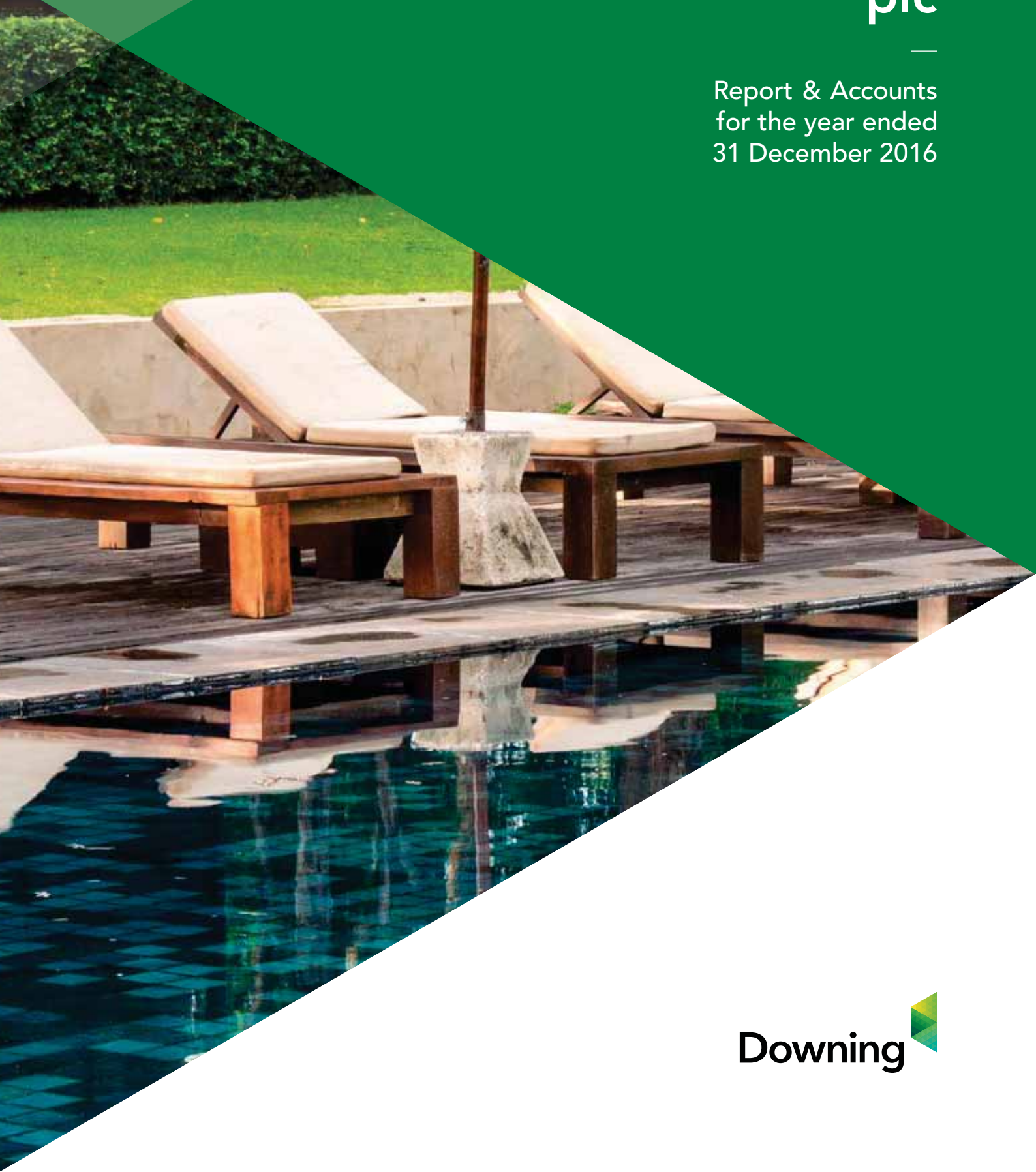


Downing TWO VCT plc

Report & Accounts
for the year ended
31 December 2016



SHAREHOLDER INFORMATION

Share prices

The Company's share prices can be found in various financial websites with the TIDM/EPIC codes shown below (pence per share):

	'D' Shares	'F' Shares	'G' Shares	'K' Shares
TIDM/EPIC code:	DP2D	DP2F	DP2G	DP2K
Latest share price (26 April 2017):	5.5p	62.0p	74.0p	105.0p
	'E' Shares			
TIDM/EPIC code:	DP2E			
Latest share price (26 April 2017):	5.0p			

Dividends

Dividends will be paid by the registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account, rather than by cheque to their registered address, can complete a mandate form for this purpose. Queries relating to dividends, shareholdings and requests for mandate forms should be directed to the Company's registrar, Capita Asset Services by calling 0871 664 0300 (calls cost 10p per minute plus network extras, lines open 8:30am to 5:30pm Monday to Friday), or by writing to them at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Mandate forms can be downloaded from Capita's website (see below).

Selling shares

The Company's shares can be bought and sold in the same way as any other company listed on the London Stock Exchange, using a stockbroker. Disposing of shares may have tax implications, so Shareholders are urged to contact their independent financial adviser before making a decision.

Share certificates

Share certificates issued in the Company's previous names, "Downing Protected VCT II plc" and "Downing Planned Exit VCT 2 plc", remain valid.

Notification of change of address

Communications with Shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's registrar, Capita Asset Services, under the signature of the registered holder.

Financial calendar

20 June 2017	Annual General Meeting
30 June 2017	Final dividends paid
September 2017	Announcement of half yearly financial results

Other information for Shareholders

Up to date Company information (including financial statements, share prices and dividend history) may be obtained from Downing's website at:

www.downing.co.uk

If you have any queries regarding your shareholding in Downing TWO VCT plc, please contact the registrar on the above number or visit Capita's website at www.capitaassetservices.com and click on "Products and Services" and then "Shareholders".

Share scam warning

We have become aware that a significant number of shareholders of VCTs managed by both Downing and other VCT managers have recently received unsolicited telephone calls from a company purporting to be acting on behalf of a client who is looking to acquire their VCT shares at an attractive price. We believe these calls to be part of a "Boiler Room Scam". **Shareholders are warned to be very suspicious if they receive any similar type of telephone call.**

Further information can be found on Downing's website. If you have any concerns, please contact Downing on 020 7416 7780.

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COMPANY INFORMATION

Registered number	5334418
Directors	Hugh Gillespie (Chairman) Dennis Hale Christopher McCann
Company Secretary and registered office	Grant Whitehouse Ergon House Horseferry Road London SW1P 2AL
Investment and Administration Manager	Downing LLP Ergon House Horseferry Road London SW1P 2AL Tel: 020 7416 7780 www.downing.co.uk
Auditor	BDO LLP 55 Baker Street London W1U 7EU
VCT status advisers	Philip Hare & Associates LLP Suite C – First Floor 4-6 Staple Inn London WC1V 7QH
Registrars	Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU Tel: 0871 664 0300 (calls cost 10p per minute plus network extras, lines open 8:30am to 5:30pm Monday to Friday) www.capitaassetservices.com
Bankers	Bank of Scotland 33 Old Broad Street London BX2 1LB Royal Bank of Scotland London Victoria Branch 119/121 Victoria Street London SW1E 6RA

INVESTMENT OBJECTIVES

Downing TWO VCT plc is a venture capital trust established under the legislation introduced in the Finance Act 1995. The Company's principal objectives are to:

- maintain VCT status to enable Shareholders to benefit from tax reliefs available on an investment in a VCT;
- reduce the risks normally associated with VCT investments;
- target a tax-free return to investors of at least 9% per annum (based on a cost of 70p per share net of income tax relief) over the life of the shares (expected to be approximately six years); and
- target an annual dividend of at least 5.0p per share.

The detailed investment policy adopted to achieve the investment objectives is set out in the Strategic Report on page 38.

FINANCIAL HIGHLIGHTS

	31 Dec 2016 Pence	31 Dec 2015 Pence
'C' Share pool		
Net asset value per 'C' Share	-	53.9
Net asset value per 'A' Share	-	0.1
Cumulative distributions per 'C' Share	120.8	75.0
Adjusted for performance fee estimate	-	(7.6)
Total return per 'C' Share and 'A' Share	<u>120.8</u>	<u>121.40</u>
'D' Share pool		
Net asset value per 'D' Share	36.6	51.8
Net asset value per 'E' Share	0.1	0.1
Cumulative distributions per 'D' Share	66.5	49.5
Total return per 'D' Share and 'E' Share	<u>103.2</u>	<u>101.4</u>
'F' Share pool		
Net asset value per 'F' Share	69.7	71.9
Cumulative distributions per 'F' Share	25.0	20.0
Total return per 'F' Share	<u>94.7</u>	<u>91.9</u>
'G' Share pool		
Net asset value per 'G' Share	83.5	86.3
Cumulative distributions per 'G' Share	20.0	15.0
Total return per 'G' Share	<u>103.5</u>	<u>101.3</u>
'K' Share pool		
Net asset value per 'K' Share	99.0	n/a
Cumulative distributions per 'K' Share	-	n/a
Total return per 'K' Share	<u>99.0</u>	<u>n/a</u>

Dividends paid since period end

'D' Shares	Paid 24 March 2017	13.5p
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Proposed dividends

'F' Shares – proposed Final Dec 2016	Payable 30 June 2017	2.5p
'G' Shares – proposed Final Dec 2016	Payable 30 June 2017	2.5p

FINANCIAL HIGHLIGHTS (continued)

Dividend history

Year end	Date paid	'C'	'A'	'D'	'F'	'G'	'K'
		Shares Pence per share	Shares Pence per share	Shares Pence per share	Shares Pence per share	Shares Pence per share	Shares Pence per share
Final 2010	30 July 2010	5.0	-	-	-	-	-
Interim 2011	26 November 2010	-	-	2.5	-	-	-
Final 2011	15 July 2011	5.0	-	2.5	-	-	-
Interim 2012	25 November 2011	2.5	-	2.5	-	-	-
Final 2012	27 July 2012	2.5	-	2.5	-	-	-
Interim Jan 2013	30 November 2012	2.5	-	2.5	5.0	-	-
Final Jan 2013	19 July 2013	2.5	-	2.5	2.5	-	-
Interim Dec 2013	27 November 2013	2.5	-	2.5	2.5	5.0	-
Final Dec 2013	27 June 2014	2.5	-	2.5	2.5	2.5	-
Interim Dec 2014	12 December 2014	-	-	2.5	2.5	2.5	-
Final Dec 2014	20 March 2015	50.0	-	-	-	-	-
Final Dec 2014	19 June 2015	-	-	-	2.5	2.5	-
Interim Dec 2015	18 December 2015	-	-	27.0	2.5	2.5	-
Special 2016	24 March 2016	30.6	15.2	17.0	-	-	-
Final Dec 2015	24 June 2016	-	-	-	2.5	2.5	-
Interim Dec 2016	16 December 2016	-	-	-	2.5	2.5	-
		<u>105.6</u>	<u>15.2</u>	<u>66.5</u>	<u>25.0</u>	<u>20.0</u>	<u>-</u>
		<u>15.2</u>					
'C' & 'A' Share Total		<u>120.8</u>					

DIRECTORS

Hugh Gillespie (Chairman) is non-executive director of the Burgess Group plc. He was formerly a director of Hill Samuel Bank Limited and non-executive director and chairman of a number of public companies including other Downing VCTs.

Dennis Hale was previously an investment director of Financial Management Bureau Limited ("FMB"), a firm of independent financial advisers based in Cumbria. He was responsible for VCT research within FMB, whose clients have invested in VCTs since 1997. Prior to founding FMB in 1987, he worked for several life assurance companies. He was an Associate of the Institute of Actuaries and holds The Investment Management Certificate. He graduated from the University of Hull with a degree in Mathematics in 1974. He is also a director of Downing THREE VCT plc.

Christopher McCann has been a non-executive director of a number of Downing VCTs. He is a Chartered Accountant and was vice chairman of the private equity manager, Bridgepoint Capital Limited, where he worked from 1987 to 2002. Prior to this he worked for the Barclays Bank Group. He has been a director or chairman of numerous private companies and the chairman of an AIM quoted company.

All of the Directors are non-executive and are considered to be independent of the Investment Manager.

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present the Annual Report for the year ended 31 December 2016. As the Company now has a number of planned exit share pools in different stages of their life, the Manager has had to focus on progressing investment realisations in some pools while also working on building new investment portfolios for the more recent pools. Overall, progress has been satisfactory.

A brief summary of each share pool is provided below. More detailed reviews are provided in the Investment Manager's Report and Review of Investments on pages 6 to 36.

'C' Share pool

The final distribution to 'C' Shareholders was made in March 2016. Total Return (NAV plus cumulative dividends to date) to those investors was 120.8p per Share compared to the original cost net of income tax relief of 70.0p. The Board congratulates the Manager on delivering a very successful outcome for investors. Since the year end, the 'C' and 'A' Shares, which had negligible residual value, were cancelled.

'D' Share pool

The 'D' Shares were originally issued in 2010 and at the year end held a portfolio of seven live investments with a total value of £2.4 million.

At 31 December 2016, the NAV of a combined holding of one 'D' Share and one 'E' Share stood at 36.7p, which represents an increase of 3.5% over the year after adjusting for the dividends of 17.0p per share paid in the year. Total Return (NAV plus cumulative dividends to date) is now 103.2p, compared to the initial cost to original subscribers net of income tax relief of 70.0p.

'F' Share pool

The 'F' Share pool was launched in 2012 and now holds a portfolio of 23 investments with a total value of £7.2 million.

At 31 December 2016, the 'F' Share NAV stood at 69.7p, which represents an increase of 3.9% over the year after adjusting for the dividends of 5.0p per share paid in the year. Dividends paid to date total 25.0p per share such that Total Return (NAV plus cumulative dividends to date) is now 94.7p, compared to the initial cost to original subscribers net of income tax relief of 70.0p.

In line with the dividend policy, the Board is proposing to pay a final dividend of 2.5p per 'F' Share on 30 June 2017 to Shareholders on the register at the close of business on 26 May 2017.

'G' Share pool

The 'G' Share pool was launched in 2013 and completed its initial investment phase this year. At 31 December 2016, the pool held 19 investments with a total value of £20.2 million.

At 31 December 2016, the 'G' Share NAV stood at 83.5p, which represents an increase over the year of 2.5% after adjusting for the dividends of 5.0p per share paid in the year. Total Return (NAV plus cumulative dividends to date) is now 103.5p, compared to the initial NAV of 100.0p.

In line with the dividend policy, the Board is proposing to pay a final dividend of 2.5p per 'G' Share on 30 June 2017 to Shareholders on the register at the close of business on 26 May 2017.

'K' Share pool

The 'K' Share Offer for Subscription was launched on 15 December 2015 and closed on 30 September 2016, having raised gross proceeds £16.2 million. The process of building the 'K' Share portfolio is now well underway.

At 31 December 2016, the pool held 11 investments with a total value of £9.9 million. The NAV at 31 December 2016 stood at 99.0p per share.

Share buybacks

For share classes where all investors are still within the initial five year period (currently the 'G' Share and 'K' Share classes), the Company operates a general policy of buying in its own shares for cancellation when any become available in the market. During this period, any such purchases will be undertaken at a price equal to the latest published NAV (i.e. at nil discount). Any buybacks are subject to regulatory restrictions and other factors such as the availability of liquid funds.

The Company is now unlikely to make any further purchases of 'D' Shares, 'E' Shares and 'F' Shares. The process of returning funds to 'D' and 'E' Shareholders is now underway, and the 'F' Shares are due to start returning funds early next year.

During the year to 31 December 2016, the Company repurchased and subsequently cancelled 11,295 'F' Shares and 33,975 'G' Shares for an aggregate consideration of £7,511 and £28,370 respectively, being an average price of 66.5p per 'F' Share and 83.5p per 'G' Share.

A resolution to renew the buyback authority for the Company to purchase its own shares will be proposed at the forthcoming Annual General Meeting.

CHAIRMAN'S STATEMENT (continued)

Annual General Meeting ("AGM")

The Company's tenth AGM will be held at Ergon House, Horseferry Road, London, SW1P 2AL at 10:45 a.m. on 20 June 2017.

Two items of special business will be proposed at the AGM. As mentioned above, the Company will seek to renew the authority for the Company to buy back shares.

Also, the Company is seeking Shareholder approval to amend the Company's Articles of Association to simplify the process of cancelling share classes once they have come to the end of their planned exit life. The proposed changes will eliminate the requirement for a Shareholder Circular to be issued in order to cancel a share class once it has reduced to a negligible residual value. This will result in some cost savings for the Company.

Outlook

Although the long term implications of Brexit may not yet be clear, the impact on the Company is not expected to be significant. The majority of the share pools are already fully invested and progressing satisfactorily. The 'K' Share is still making new investments as it builds its portfolio and faces greater challenges from new VCT rules than it is likely to from factors connected with Britain leaving the EU. VCT rules brought in over the last year or so have reduced the scope of investments that can be made, however the Manager is confident that a reasonable portfolio can be built which can deliver Shareholders the targeted results.

We expect to see significant headway made in realising most of the remaining investments in the 'D' Share pool over the next few months. The Manager will also be developing plans during the course of this year for realisation of investments from the 'F' Share pool, ahead of the commencement of the return of funds to those investors early next year.

I look forward to updating Shareholders on progress in my statement with the Half Yearly Report to 30 June 2017.



Hugh Gillespie
Chairman

26 April 2017

INVESTMENT MANAGER'S REPORT- 'D' SHARE POOL

Introduction

The 'D' Share pool holds investments in seven companies and is fully invested. The focus this year has been on realisations and ten full or partial exits have completed in the period. We have realisation plans in place for the remainder of the portfolio.

Net asset value and results

At 31 December 2016, the 'D' Share NAV stood at 36.6p and the 'E' Share NAV at 0.1p, giving a combined NAV of 36.7p. Total Return (NAV plus cumulative dividends to date) was 103.2p for a combined holding of one 'D' and one 'E' Share. This represents a net increase of 1.8p over the year (after adjusting for dividends paid during the year of 17.0p per 'D' Share), equivalent to an increase of 3.5%.

The return on ordinary activities for the 'D' Shares for the period was a gain of £176,000 (2015: £723,000) being a revenue loss of £58,000 (2015: profit £339,000) and a capital gain of £234,000 (2015: £384,000).

'D' Share pool - divestment activity

Ten full or partial exits have completed in the period generating total proceeds of £2.2 million.

The most significant of these were Quadrate Catering Limited and Quadrate Spa Limited which generated proceeds of £581,000 and £520,000 and uplifts over cost of £140,000 and £168,000 respectively.

Other significant realisations included, Kidspace Adventures (Holdings) Limited which generated proceeds of £470,000, an uplift over cost of £95,000 and Future Biogas (SF) Limited which returned £203,000 compared to a cost of £169,000.

'D' Share pool – portfolio valuation

The majority of the 'D' Share portfolio performed in line with expectations during the year. There were a few small valuation movements in the period that resulted in an unrealised gain of £27,000.

Fenkle Street LLP is a property development company based in Newcastle. The hotel is trading well and the valuation has increased by £50,000 to reflect the expected future cash flows of the company.

Avon Solar Limited, the owner of residential rooftop solar assets in the UK, was uplifted by £22,000 due to continued good performance.

Unfortunately, these gains were partially offset by a reduction in value on Mosaic Spa and Health Clubs Limited which has continued to have minor performance issues and has resulted in an unrealised loss of £45,000.

Outlook

Realisation plans are in place for the remaining investments in the portfolio with some expected to complete in the next few months in order to make a final distribution to investors.

Downing LLP

26 April 2017

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2016:

‘D’ Share pool

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
VCT qualifying and partially qualifying investments				
Mosaic Spa and Health Clubs Limited*	520	300	(45)	8.1%
Westcountry Solar Solutions Limited	250	250	-	6.7%
Avon Solar Limited	210	240	22	6.4%
Quadrate Spa Limited	144	-	-	0.0%
	<u>1,124</u>	<u>790</u>	<u>(23)</u>	<u>21.2%</u>
Non-qualifying investments				
Gara Rock Resort Limited	1,322	1,322	-	35.5%
Fenkle Street LLP	122	270	50	7.2%
Future Biogas (Reepham Road) Limited	320	-	-	0.0%
	<u>1,764</u>	<u>1,592</u>	<u>50</u>	<u>42.7%</u>
	<u>2,888</u>	<u>2,382</u>	<u>27</u>	<u>63.9%</u>
Cash at bank and in hand		<u>1,345</u>		<u>36.1%</u>
Total investments		<u>3,727</u>		<u>100.0%</u>

* Part-qualifying investment

The movements in the portfolio during the year and the basis of valuation of the largest investments are set out on pages 8 to 10.

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL (continued)

Summary of investment movements

Disposals

	Cost £'000	MV at 01/01/16 † £'000	Disposal proceeds £'000	Gain/ (loss) against cost £'000	Total realised gain during the year £'000
VCT qualifying and partially qualifying investments					
Future Biogas (Reepham Road) Limited	261	196	261	-	65
Quadrate Catering Limited	441	539	581	140	42
Liverpool Nurseries (Holdings) Limited	-	-	12	12	12
Kidspace Adventures Holdings Limited	375	465	470	95	5
Quadrate Spa Limited*	352	520	520	168	-
Camandale Limited*	422	2	2	(420)	-
Non-qualifying investments					
Future Biogas (SF) Limited	169	169	203	34	34
Kilmarnock Monkey Bar Limited	-	-	6	6	6
Redmed Limited	27	24	28	1	4
Commercial Street Hotel Limited	100	100	100	-	-
Total ‘D’ Share pool	<u>2,147</u>	<u>2,015</u>	<u>2,183</u>	<u>36</u>	<u>168</u>

† Adjusted for additions in the year

* Part-qualifying investment

REVIEW OF INVESTMENTS – 'D' SHARE POOL (continued)

Further details of the main investments:

Gara Rock Resort Limited

www.gararock.co.uk



Cost at 31/12/16:	£1,322,000	Valuation at 31/12/16:	£1,322,000
Date of first investment:	May 10	Valuation at 31/12/15:	£1,322,000
		Valuation method:	Discounted cash flow from the investment

Investment comprises:

Loan stock:	£1,322,000	Proportion of loan stock held:	9%
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Summary financial information from statutory accounts to 31 December*

	2015	2014
Net liabilities:	(£1,747,519)	(£4,991,312)

Gara Rock Resort Limited is a property development company which owns the Gara Rock site in East Portlemouth, South Devon. All of the apartments and cottages have been completed and are currently being marketed for sale.

Mosaic Spa and Health Clubs Limited

www.mosaicspaandhealth.co.uk



Cost at 31/12/16:	£520,000	Valuation at 31/12/16:	£300,000
Date of first investment:	Feb 11	Valuation at 31/12/15:	£346,000
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£135,000	Proportion of equity held:	5%
Loan stock:	£385,000	Proportion of loan stock held:	6%

Summary financial information from statutory accounts to 31 December

	2015	2014
Turnover:	£8,034,323	£7,550,488
Operating (loss)/profit:	(£24,478)	£47,919
Net assets:	£1,253,692	£1,540,028

Mosaic Spa and Health Clubs Limited owns two health clubs and operates a spa and health club management company. The company currently has 30 management contracts to provide gyms and spa services to hotels, educational establishments, university and corporate clients.

Fenkle Street LLP



Cost at 31/12/16:	£122,000	Valuation at 31/12/16:	£270,000
Date of first investment:	Jun 10	Valuation at 31/12/15:	£220,000
		Valuation method:	Discounted cash flow of underlying business

Investment comprises:

Loan stock:	£122,000	Proportion of loan stock held:	11%
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Summary financial information from consolidated statutory accounts to 30 June

	2015	2014
Turnover:	£2,716,725	£146,766
Operating profit:	£2,758,989	£324,119
Net assets:	£4,922,827	£2,249,582

Fenkle Street LLP was created to fund the purchase of a property in central Newcastle and carry out its subsequent refurbishment, under the Business Premises Renovation Allowance (BPRA) scheme.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL (continued)

Further details of the main investments:

Westcountry Solar Solutions Limited



Cost at 31/12/16:	£250,000	Valuation at 31/12/16:	£250,000
Date of first investment:	Aug 11	Valuation at 31/12/15:	£250,000
		Valuation method:	Discounted cash flow of underlying business

Investment comprises:

Ordinary shares:	£75,000	Proportion of equity held:	6%
Loan stock:	£175,000	Proportion of loan stock held:	13%

Summary financial information from statutory accounts to 31 March*

	2016	2015
Net (liabilities)/assets:	(£94,241)	£41,834

Westcountry Solar Solutions Limited has developed a portfolio of rooftop solar PV assets across the UK. The solar PV assets have been installed on school rooftops. The schools benefit from free electricity whilst the company benefits from the Feed in Tariff scheme for the 25 year life of the assets. Any surplus electricity is sold to third party power off-takers.

Avon Solar Energy Limited



Cost at 31/12/16:	£210,000	Valuation at 31/12/16:	£240,000
Date of first investment:	Sep 11	Valuation at 31/12/15:	£218,000
		Valuation method:	Discounted cash flow of underlying business

Investment comprises:

Ordinary shares:	£75,000	Proportion of equity held:	6%
Loan stock:	£135,000	Proportion of loan stock held:	12%

Summary financial information from consolidated statutory accounts to 31 July*

	2015	2014
Net assets:	£312,135	£341,331

Avon Solar Limited has developed a portfolio of 190 residential rooftop solar PV assets in the UK. The sites were commissioned in 2011 and 2012 and have locked into the Feed in Tariff scheme for the 25 year life of the assets. The solar assets provide free power to the homeowners and any surplus is exported into the National Grid.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL (continued)

Further details of the main investments:

Summary of loan stock interest income

Loan stock interest recognised in the year from the main investments held by the ‘D’ Share pool	£’000
Gara Rock Resort Limited	-
Mosaic Spa and Health Clubs Limited	(44)
Fenkle Street LLP	8
Westcountry Solar Solutions Limited	24
Avon Solar Energy Limited	35
Future Biogas (Reepham Road) Limited	-
Quadrate Spa Limited	-
	<hr/>
	23
Receivable from other investments	24
	<hr/>
	47

Analysis of investments by investment type

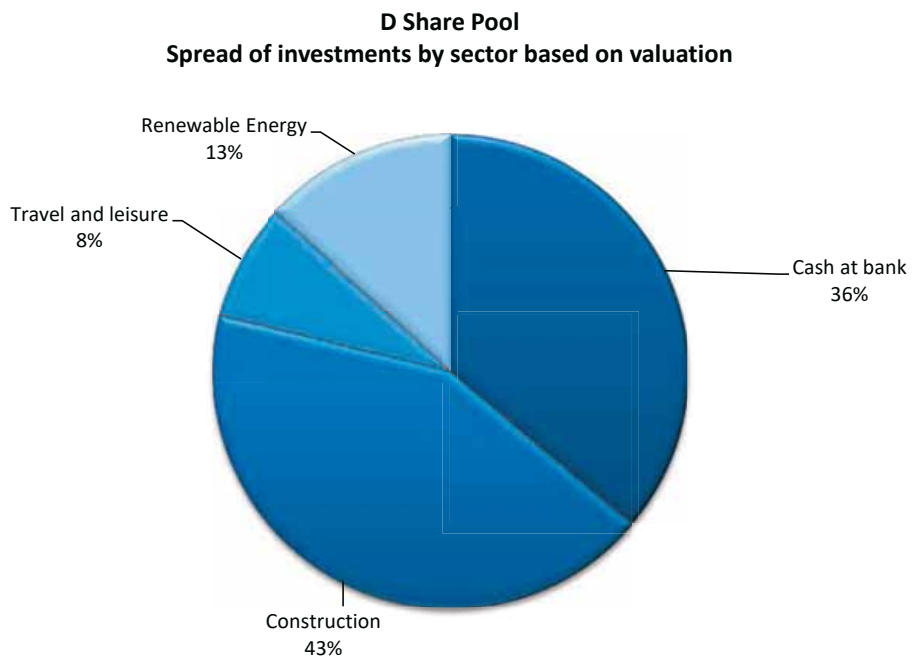
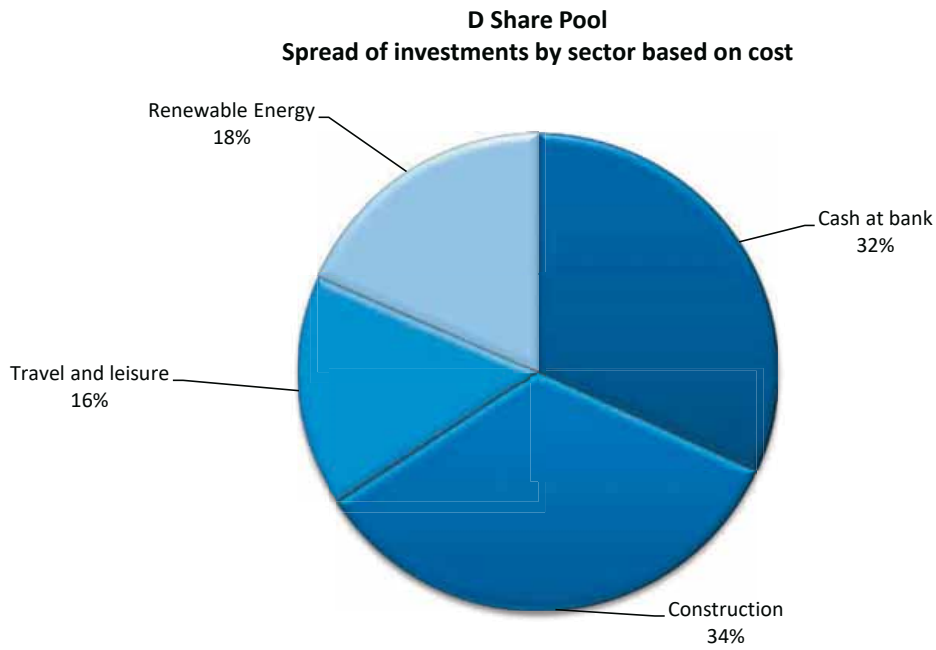
The following shows the split of the ‘D’ Share pool’s investment portfolio by type of instrument held at 31 December 2016:

	Target portfolio split	Actual portfolio split 31 Dec 2016
Qualifying investments		
Loans to qualifying companies	50%	15%
Ordinary shares in qualifying companies	25%	18%
Non-qualifying investments (including cash at bank)	25%	67%
	<hr/>	<hr/>
	100%	100%

REVIEW OF INVESTMENTS – ‘D’ SHARE POOL (continued)

Analysis of investments by commercial sector

The split of the ‘D’ Share pool’s venture capital investment portfolio by commercial sector (by cost and value at 31 December 2016) is as follows:



INVESTMENT MANAGER'S REPORT- 'F' SHARE POOL

Introduction

The 'F' Share pool holds 23 investments and is fully invested in a portfolio focussed on asset backed businesses and those with predictable revenue streams.

Net asset value and results

At 31 December 2016, the 'F' Share NAV stood at 69.7p. Total Return (NAV plus cumulative dividends to date) for Shareholders who invested in the original share offer is now 94.7p. This represents a net increase of 2.8p per share over the year (after adjusting for dividends paid during the year of 5.0p per Share), equivalent to an increase of 3.9%.

The return on ordinary activities for the 'F' Share pool for the year was a gain of £302,000 (2015: £118,000) being a revenue loss of £113,000 (2015: profit £175,000) and a capital gain of £415,000 (2015: loss £57,000).

'F' Share pool - investment activity

Four new investments were made in the period totalling £700,000. £300,000 was invested into Vectis Alpha Limited which is seeking to build and develop renewable energy plants; £150,000 was invested into Brownfields Trading Limited which is seeking to develop small-scale waste disposal projects; and £125,000 was invested into both Rhodes Solutions Limited and Morava Limited which are both exploring opportunities in the wood refinery sector.

Three full exits were completed in the period generating total proceeds of £1.3 million.

Grasshopper 2007 Limited, the company that owns The Grasshopper Inn, a public house near Westerham, Kent, was sold and generated proceeds equivalent to the original cost of £378,000.

The divestment of Kidspace Adventures Holdings Limited, the owner of three well established children's play areas in Croydon, Romford and Epsom, realised £313,000 which was £63,000 more than the investment cost.

The final repayment on Redmed Limited, the owner and operator of a bar in Lincoln, was made which completed the exit of the investment and generated proceeds of £16,000.

One notable partial divestment took place in the period, being the part repayment of a non-qualifying loan to Gara Rock Resort Limited, formerly Aminghurst Limited, which generated proceeds of £581,000.

'F' Share pool – portfolio valuation

The majority of investments remain valued at or above cost and there were several valuation movements in the period that resulted in an unrealised gain of £410,000.

Pearce and Saunders Limited, the owner of three freehold pubs in south east London, has previously been written down in value due to poor performance of the underlying pub companies. However, rising property prices have benefitted the investment and the valuation has been increased by £248,000 and is now held at original cost.

The valuation of anaerobic digestion plant, Merlin Renewables Limited, has increased by £75,000 as the plant continues to perform ahead of expectations.

Four smaller movements have also been recognised in the period. Atlantic Dogstar Limited, which owns a group of London pubs, is performing to plan and the valuation has been increased by £27,000.

Lambridge Solar Limited, Augusta Pub Company Limited and Pabulum Pubs Limited are all performing well and have been increased in value by £26,000, £25,000 and £9,000 respectively.

Outlook

The focus now for the 'F' Share portfolio is on close monitoring and support of the portfolio companies to ensure that prospects for growth are optimised in the period until the realisation process commences in early 2018.

Downing LLP

26 April 2017

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2016:

‘F’ Share pool	Cost £’000	Valuation £’000	Valuation movement in year £’000	% of portfolio
VCT qualifying and partially qualifying investments				
Apex Energy Limited	1,000	1,000	-	13.2%
Vulcan Renewables Limited	653	779	-	10.3%
Goonhilly Earth Station Limited	760	760	-	10.0%
Merlin Renewables Limited	500	575	75	7.6%
Lambridge Solar Limited	500	569	26	7.5%
Pearce and Saunders Limited	497	497	248	6.6%
Augusta Pub Company Limited	290	349	25	4.6%
Vectis Alpha Limited	300	300	-	4.0%
Pabulum Pubs Limited	200	237	9	3.2%
Atlantic Dogstar Limited	200	227	27	3.0%
Fresh Green Power Limited	200	200	-	2.6%
City Falkirk Limited	422	177	-	2.3%
Fubar Stirling Limited	268	169	-	2.2%
Brownfields Trading Limited	150	150	-	2.0%
Rhodes Solutions Limited	125	125	-	1.6%
Morava Limited	125	125	-	1.6%
Green Energy Production UK Limited	100	100	-	1.3%
Cheers Dumbarton	48	17	-	0.2%
Lochrise Limited	13	-	-	0.0%
	<u>6,351</u>	<u>6,356</u>	<u>410</u>	<u>83.8%</u>
Non-qualifying investments				
Baron House Developments LLP	481	481	-	6.3%
Gara Rock Resort Limited	258	258	-	3.4%
London City Shopping Centre Limited	66	66	-	0.9%
Pearce and Saunders DevCo Limited	46	46	-	0.6%
	<u>851</u>	<u>851</u>	<u>-</u>	<u>11.2%</u>
	<u>7,202</u>	<u>7,207</u>	<u>410</u>	<u>95.0%</u>
Cash at bank and in hand		<u>377</u>		<u>5.0%</u>
Total investments		<u>7,584</u>		<u>100.0%</u>

The movements in the portfolio during the year and the basis of valuation of the ten largest investments are set out above and on pages 15 to 19.

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL (continued)

Summary of investment movements

Additions

	Cost £'000
VCT qualifying and partially qualifying investments	
Vectis Alpha Limited	300
Brownfields Trading Limited	150
Morava Limited	125
Rhodes Solutions Limited	125
Total ‘F’ Share pool	<u>700</u>

Disposals

	Cost £'000	MV at 01/01/16 [†] £'000	Disposal proceeds £'000	Gain/ (loss) against cost £'000	Total realised gain during the year £'000
VCT qualifying and partially qualifying investments					
Kidspace Adventures Holdings Limited	250	310	313	63	3
Redmed Limited*	18	14	16	(2)	2
Grasshopper 2007 Limited	378	378	378	-	-
Non-qualifying investments					
Gara Rock Resort Limited	581	581	581	-	-
Southampton Hotel Developments Limited	298	-	-	(298)	-
Total ‘F’ Share pool	<u>1,525</u>	<u>1,283</u>	<u>1,288</u>	<u>(237)</u>	<u>5</u>

† Adjusted for additions in the year

* Part-qualifying investment

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL (continued)

Further details of the main investments:

Apex Energy Limited



Cost at 31/12/16:	£1,000,000	Valuation at 31/12/16:	£1,000,000
Date of first investment:	Nov 15	Valuation at 31/12/15:	£1,000,000
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary shares:	£1,000,000	Proportion of equity held:	20%

Summary financial information from statutory accounts: None filed

Apex Energy Limited is developing a standby electricity generation plant up to 20 MW in capacity. The diesel plant, once operational, will provide electricity to the grid during periods of peak demand.

Vulcan Renewables Limited



Cost at 31/12/16:	£653,000	Valuation at 31/12/16:	£779,000
Date of first investment:	Apr 12	Valuation at 31/12/15:	£779,000
		Valuation method:	Discounted cash flow of underlying business

Investment comprises:			
Ordinary shares:	£485,000	Proportion of equity held:	5%
Loan stock:	£168,000	Proportion of loan stock held:	4%

Summary financial information from statutory accounts to*

	31 May 2016	30 Nov 2014
Net assets:	£3,360,824	£3,582,726

Vulcan Renewables operates a 2.0MW maize fed biogas plant in Doncaster. Through an anaerobic digestion process, biogas is produced which is used to generate gas. The company benefits from the receipt of Feed In Tariffs and payments for gas exported to the National Gas Grid.

Goonhilly Earth Station Limited

www.goonhilly.org



Cost at 31/12/16:	£760,000	Valuation at 31/12/16:	£760,000
Date of first investment:	Jan 14	Valuation at 31/12/15:	£760,000
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary shares:	£532,000	Proportion of equity held:	19%
Loan stock:	£228,000	Proportion of loan stock held:	20%

Summary financial information from statutory accounts to 31 May*

	2015	2014
Net assets:	£1,849,033	£2,269,128

Goonhilly Earth Station Limited operates a satellite earth station in Cornwall, providing satellite telemetry and control on behalf of satellite owners, radio astronomy facilities to a consortium of universities, and data centre and training services for satellite engineers.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

** Summary financial information from statutory accounts to 30 November

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL (continued)

Further details of the main investments:

Merlin Renewables Limited



Cost at 31/12/16:	£500,000	Valuation at 31/12/16:	£575,000
Date of first investment:	Oct 14	Valuation at 31/12/15:	£500,000
		Valuation method:	Discounted cash flow of underlying business

Investment comprises:

Ordinary shares:	£500,000	Proportion of equity held:	5%
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Summary financial information from statutory accounts to

	31 May 2016	30 Nov 2014
Net assets:	£7,927,908	£6,609,068

Merlin Renewables Limited has developed a 2 MW gas injection anaerobic digestion plant in Norfolk with Future Biogas Limited. The plant is to be fed on maize which is being grown on nearby land and sold to the company for use in the plant. The anaerobic digestion qualifies to receive payments under the Renewable Heat Incentive for injecting bio-methane into the gas grid and electricity for Feed in Tariff income.

Lambridge Solar Limited



Cost at 31/12/16:	£500,000	Valuation at 31/12/16:	£569,000
Date of first investment:	Jul 14	Valuation at 31/12/15:	£543,000
		Valuation method:	Discounted cash flow of underlying business

Investment comprises:

Ordinary shares:	£500,000	Proportion of equity held:	4%
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Summary financial information from statutory accounts to 31 December*

	2015	2014
Net assets:	£7,597,079	£7,309,665

Lambridge Solar Limited owns a 9.0 MW ground-mounted photovoltaic system at Burton Pedwardine in Lincolnshire. It qualifies for Renewable Obligations Certificates (“ROC”) and receives 1.6 ROCs for every megawatt hour of electricity generated. Provisional Acceptance Certificate testing was undertaken in July 2014.

Pearce and Saunders Limited



Cost at 31/12/16:	£497,000	Valuation at 31/12/16:	£497,000
Date of first investment:	Sep 13	Valuation at 31/12/15:	£248,000
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£497,000	Proportion of equity held:	19%
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Summary financial information from statutory accounts to 31 December*

	2015	2014
Net assets:	£938,828	£382,515

Pearce and Saunders Limited is a freehold pub company that is managed by the Antic London team and funded by Downing VCTs. It was incorporated to acquire the freehold pubs of three South East London sites; Jam Circus in Brockley, The Old Post Office in Eltham and the John Jackson in Wallington.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL (continued)

Further details of the main investments:

Baron House Developments LLP



Cost at 31/12/16:	£481,000	Valuation at 31/12/16:	£481,000
Date of first investment:	Apr 12	Valuation at 31/12/15:	£481,000
		Valuation method:	Multiples

Investment comprises:			
Loan stock:	£481,000	Proportion of loan stock held:	10%

Summary financial information from statutory accounts to 31 March

	2016	2015
Turnover:	£408,657	£7,942,876
Operating (loss)/profit:	(£92,632)	£529,825
Net assets:	£4,850,105	£4,782,969

Baron House Developments was created to fund the purchase of a property opposite Newcastle station, which qualifies under the Business Premises Renovation Allowance “BPRA” scheme.

Augusta Pub Company Limited



Cost at 31/12/16:	£290,000	Valuation at 31/12/16:	£349,000
Date of first investment:	May 13	Valuation at 31/12/15:	£324,000
		Valuation method:	Multiples

Investment comprises:			
Ordinary shares:	£290,000	Proportion of equity held:	7%

Summary financial information from statutory accounts to 31 December*

	2015	2014
Net assets:	£4,506,804	£4,300,354

Augusta Pub Company Limited owns three freehold pubs in London. These are the Balham Bowls Club in Balham, The Forest Tavern in Forest Gate and No 23 Westow Hill in Crystal Palace. The first two sites are open for trading whilst No 23 is expected to open in the near future. Downing’s funds are invested alongside an existing and experienced operator, Antic London.

Vectis Alpha Limited



Cost at 31/12/16:	£300,000	Valuation at 31/12/16:	£300,000
Date of first investment:	Apr 16	Valuation at 31/12/15:	n/a
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary shares:	£300,000	Proportion of equity held:	6%

Summary financial information from statutory accounts: None filed

Vectis Alpha Limited was incorporated with the intention of operating standard and containerised Combined Heat and Power (“CHP”) plants to generate electrical power and capture exhaust heat, and is currently looking for viable opportunities in the market.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL (continued)

Further details of the main investments:

Gara Rock Resort Limited

www.gararock.co.uk



Cost at 31/12/16:	£258,000	Valuation at 31/12/16:	£258,000
Date of first investment:	Sep 12	Valuation at 31/12/15:	£839,000
		Valuation method:	Discounted cash flow from the investment

Investment comprises:			
Loan stock:	£258,000	Proportion of loan stock held:	8%

Summary financial information from statutory accounts to 31 December*

	2015	2014
Net liabilities:	(£1,747,519)	(£4,991,312)

Gara Rock Resort Limited is a property development company which owns the Gara Rock site in East Portlemouth, South Devon. All of the apartments and cottages have been completed and are currently being marketed for sale.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

Summary of loan stock interest income

Loan stock interest recognised in the year from the ten largest investments held by the ‘F’ Share pool	£’000
Apex Energy Limited	-
Vulcan Renewables Limited	-
Goonhilly Earth Station Limited	-
Merlin Renewables Limited	-
Lambridge Solar Limited	-
Pearce and Saunders Limited	-
Baron House Developments LLP	-
Augusta Pub Company Limited	-
Vectis Alpha Limited	-
Gara Rock Resort Limited	28
	<u>28</u>
Receivable from other investments	37
	<u>65</u>

Analysis of investments by investment type

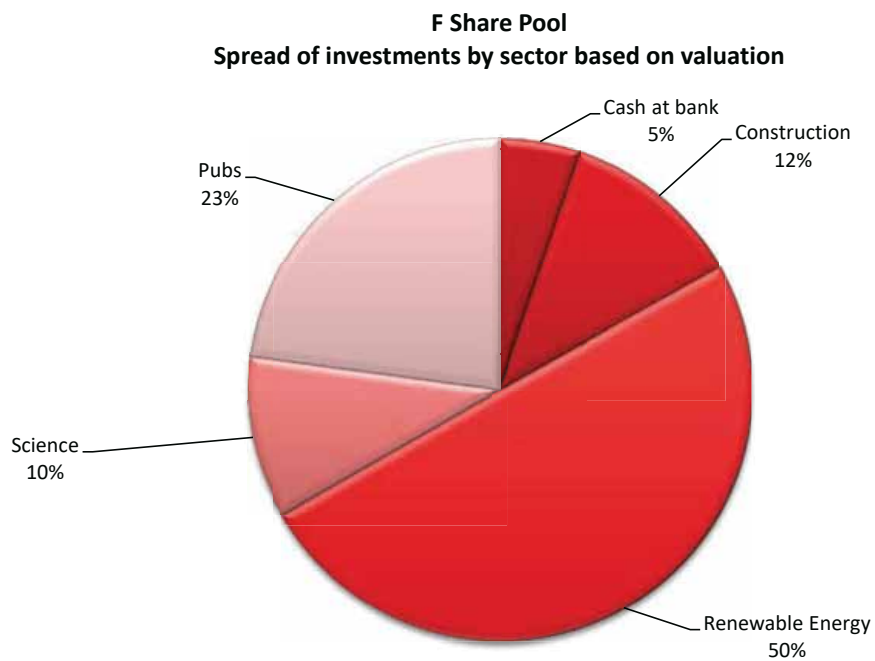
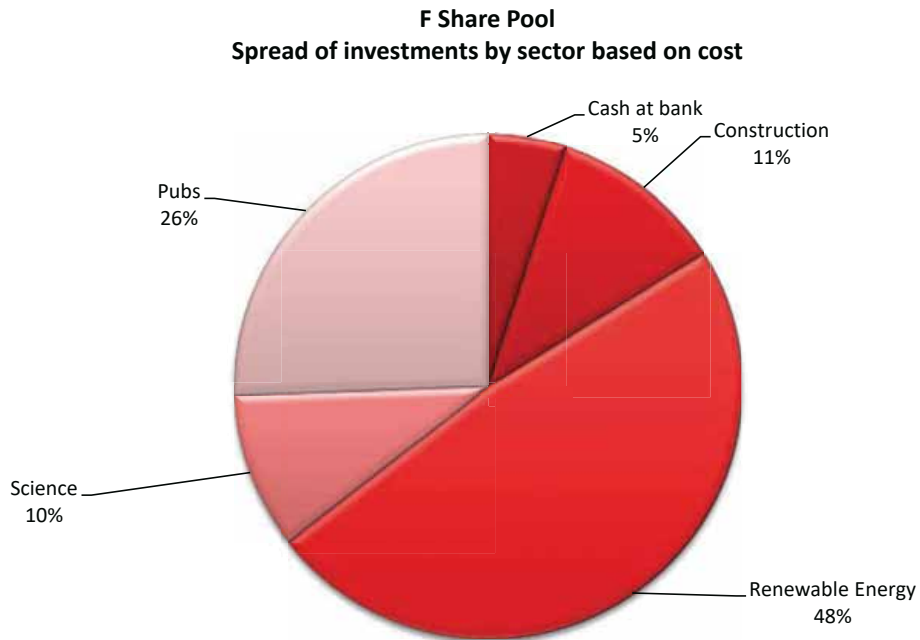
The following shows the split of the ‘F’ Share pool’s investment portfolio by type of instrument held at 31 December 2016:

	Target portfolio split	Actual portfolio split 31 Dec 2016
Qualifying investments		
Loans to qualifying companies	50%	14%
Ordinary shares in qualifying companies	25%	70%
Non-qualifying investments (including cash at bank)	25%	16%
	<u>100%</u>	<u>100%</u>

REVIEW OF INVESTMENTS – ‘F’ SHARE POOL (continued)

Analysis of investments by commercial sector

The split of the ‘F’ Share pool’s venture capital investment portfolio by commercial sector (by cost and value at 31 December 2016) is as follows:



INVESTMENT MANAGER'S REPORT- 'G' SHARE POOL

Introduction

Over the course of the year, the 'G' Share pool has continued to build its initial VCT qualifying portfolio and focus now turns to investee monitoring.

Net asset value and results

At 31 December 2016, the 'G' Share NAV stood at 83.5p. Total Return (NAV plus cumulative dividends to date) for Shareholders who invested in the original share offer is now 103.5p. This represents a net increase of 2.2p per Share over the year (after adjusting for dividends paid during the year of 5.0p per Share), equivalent to an increase of 2.5%.

The return on ordinary activities for the 'G' Share pool for the year was a gain of £550,000 (2015: £286,000) being a revenue profit of £74,000 (2015: £257,000) and a capital gain of £476,000 (2015: £29,000).

'G' Share pool - investment activity

Five new qualifying investments were made in the period totalling £5.0 million.

£1.3 million was invested in Walworth House Pub Limited to purchase a freehold property in south London and convert it into a public house.

£1.0 million was invested into Hermes Renewables Limited which is preparing to build and operate a wood pelleting plant.

£750,000 was invested in Zora Energy Renewables Limited, a new wood pellet sales and distribution business.

One non-qualifying investment was made in Quadrate Spa Limited for £1.45 million which owns and operates a health club business in The Cube complex in Birmingham.

In the period, total proceeds of £5.6 million were received. Kidspace Adventures Holdings Limited was sold and generated proceeds equivalent to cost of £2.0 million.

Grasshopper 2007 Limited, the company that owns The Grasshopper Inn, a public house near Westerham, Kent was sold and generated proceeds of £1.1 million.

Three non-qualifying loans were repaid in full in the period. £1.3 million was repaid on Hobblers Heath Limited, the children's adventure playground development in Hounslow, West London.

Pub People Limited, the public house operator in the East Midlands, repaid £873,000 and Ludlow Taverns Limited repaid £388,000.

'G' Share pool – portfolio valuation

The majority of investments remain valued at or above cost and there were several valuation movements in the period totalling an unrealised gain of £471,000.

Atlantic Dogstar Limited owns a group of London pubs which are performing well and the valuation has been increased by £480,000.

Augusta Pub Company Limited, the owner of three freehold pubs in London, has been increased in value by £49,000 following independent valuations of the sites.

Two small increases on Pabulum Pubs Limited and Ormsborough Limited of £17,000 and £9,000 respectively were also made.

Unfortunately these gains were partially offset by an £84,000 reduction in the value of Oak Grove Renewables Limited due to performance issues at this anaerobic digestion plant.

Outlook

The 'G' Share pool is fully qualifying and therefore our focus has now shifted to close monitoring and support of the portfolio companies in order to nurture growth before the ultimate exit date.

Downing LLP

26 April 2017

REVIEW OF INVESTMENTS – ‘G’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2016:

‘G’ Share pool

	Cost £’000	Valuation £’000	Valuation movement in year £’000	% of portfolio
VCT qualifying and partially qualifying investments				
Atlantic Dogstar Limited	3,500	3,980	480	18.8%
Antelope Pub Limited	1,760	1,760	-	8.3%
Goonhilly Earth Station Limited	1,710	1,710	-	8.1%
Quadrate Catering Limited	1,450	1,450	-	6.9%
Walworth House Pub Limited	1,330	1,330	-	6.3%
Apex Energy Limited	1,300	1,300	-	6.2%
Hermes Renewables Limited	1,000	1,000	-	4.7%
Zora Energy Renewables Limited	750	750	-	3.5%
Augusta Pub Company Limited	580	697	49	3.3%
Ormsborough Limited	500	509	9	2.4%
Pabulum Pubs Limited	400	475	17	2.2%
Oak Grove Renewables Limited	420	231	(84)	1.1%
	<u>14,700</u>	<u>15,192</u>	<u>471</u>	<u>71.8%</u>
Non-qualifying investments				
Quadrate Spa Limited	1,450	1,450	-	6.9%
Hedderwick Limited	1,250	1,250	-	5.9%
Baron House Developments LLP	1,093	1,093	-	5.2%
Gara Rock Resort Limited	801	801	-	3.8%
Pearce and Saunders Limited	193	193	-	0.9%
London City Shopping Centre Limited	110	110	-	0.5%
Craft Beer Pub Co Limited	92	92	-	0.4%
	<u>4,989</u>	<u>4,989</u>	<u>-</u>	<u>23.6%</u>
	<u>19,689</u>	<u>20,181</u>	<u>471</u>	<u>95.4%</u>
Cash at bank and in hand		<u>964</u>		<u>4.6%</u>
Total investments		<u>21,145</u>		<u>100.0%</u>

The movements in the portfolio during the year and the basis of valuation of the ten largest investments are set out above and on pages 23 to 28.

REVIEW OF INVESTMENTS – ‘G’ SHARE POOL (continued)

Summary of investment movements

Additions

	Cost £'000
VCT qualifying and partially qualifying investments	
Quadrat Catering Limited	1,450
Walworth House Pub Limited	1,330
Hermes Renewables Limited	1,000
Zora Energy Renewables Limited	750
Ormsborough Limited	500
Non-qualifying investments	
Quadrat Spa Limited	1,450
Total ‘G’ Share pool	<u>6,480</u>

Disposals

	Cost £'000	MV at 01/01/16 [†] £'000	Disposal proceeds £'000	Loss against cost £'000	Total realised gain during the year £'000
VCT qualifying and partially qualifying investments					
Redmed Limited*	37	27	32	(5)	5
Kidspace Adventures Holdings Limited	1,977	1,977	1,977	-	-
Grasshopper 2007 Limited	1,050	1,050	1,050	-	-
Non-qualifying investments					
Hobblers Heath Limited	1,325	1,325	1,325	-	-
Pub People Limited	873	873	873	-	-
Ludlow Taverns Limited	388	388	388	-	-
	<u>5,650</u>	<u>5,640</u>	<u>5,645</u>	<u>(5)</u>	<u>5</u>

† Adjusted for additions in the year

* Part-qualifying investment

REVIEW OF INVESTMENTS – ‘G’ SHARE POOL (continued)

Further details of the main investments:

Atlantic Dogstar Limited www.anticlondon.com



Cost at 31/12/16:	£3,500,000	Valuation at 31/12/16:	£3,980,000
Date of first investment:	Jan 15	Valuation at 31/12/15:	£3,500,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£2,450,000	Proportion of equity held:	40%
Loan stock:	£1,050,000	Proportion of loan stock held:	25%

Summary financial information from statutory accounts to 31 December

	2015	2014
Turnover:	£6,450,168	£2,871,517
Operating profit:	£1,008,629	£662,336
Net assets	£4,574,556	£1,693,681

Atlantic Dogstar Limited owns five pubs in London, The Dogstar in Brixton, The Clapton Hart in Clapton, The East Dulwich Tavern in Dulwich, the Old Red Lion in Kennington and Westow House in Crystal Palace. The pubs are operated under the Antic London brand, the management team of which has also invested in the company.

Antelope Pub Limited



Cost at 31/12/16:	£1,760,000	Valuation at 31/12/16:	£1,760,000
Date of first investment:	Mar 13	Valuation at 31/12/15:	£1,760,000
		Valuation method:	Multiples
Investment comprises:			
Ordinary shares:	£1,232,000	Proportion of equity held:	40%
Loan stock:	£528,000	Proportion of loan stock held:	45%

Summary financial information from statutory accounts to 31 December*

	2015	2014
Net assets:	£2,634,322	£1,096,328

Antelope Pub Limited owns and operates a freehold pub, The Antelope, in Tooting South West London. Downing's funds are invested alongside an existing and experienced operator, Antic London.

Goonhilly Earth Station Limited www.goonhilly.org



Cost at 31/12/16:	£1,710,000	Valuation at 31/12/16:	£1,710,000
Date of first investment:	Jan 14	Valuation at 31/12/15:	£1,710,000
		Valuation method:	Price of recent investment
Investment comprises:			
Ordinary 'C' shares:	£17,000	Proportion of 'C' equity:	1%
Ordinary 'D' shares:	£1,180,000	Proportion of 'D' equity:	43%
Loan stock:	£513,000	Proportion of loan stock held:	45%

Summary financial information from statutory accounts to 31 May*

	2015	2014
Net assets:	£1,849,033	£2,269,128

Goonhilly Earth Station Limited operates a satellite earth station in Cornwall, providing satellite telemetry and control on behalf of satellite owners, radio astronomy facilities to a consortium of universities, and data centre and training services for satellite engineers.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘G’ SHARE POOL (continued)

Further details of the main investments:

Quadrate Catering Limited

www.mpwsteakhousebirmingham.co.uk



Cost at 31/12/16:	£1,450,000	Valuation at 31/12/16:	£1,450,000
Date of first investment:	Jan 16	Valuation at 31/12/15:	n/a
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£1,015,000	Proportion of equity held:	38%
Loan stock:	£435,000	Proportion of loan stock held:	38%

Summary financial information from statutory accounts to 31 December

	2015	2014
Turnover:	£5,850,341	£5,739,615
Operating profit:	£253,313	£356,348
Net liabilities:	(£877,123)	(£8,213)

Quadrate Catering Limited has developed the top floor of a canal-side mixed-use building in Birmingham known as “The Cube” which opened as a Marco Pierre-White branded restaurant and bar in December 2011.

Quadrate Spa Limited

www.theclubandspabirmingham.co.uk



Cost at 31/12/16:	£1,450,000	Valuation at 31/12/16:	£1,450,000
Date of first investment:	Jan 16	Valuation at 31/12/15:	n/a
		Valuation method:	Multiples

Investment comprises:

Ordinary shares:	£1,015,000	Proportion of equity held:	26%
Loan stock:	£435,000	Proportion of loan stock held:	38%

Summary financial information from statutory accounts to 31 March

	2016	2015
Turnover:	£2,297,072	£1,607,433
Operating Profit:	£501,951	£232,341
Net liabilities:	(£228,102)	(£2,724,394)

Quadrate Spa Limited has developed a spa and health club in the lower floors of a canal-side mixed-use building in Birmingham known as “The Cube”. The health club and spa opened for trading in January 2012.

Walworth House Pub Limited



Cost at 31/12/16:	£1,330,000	Valuation at 31/12/16:	£1,330,000
Date of first investment:	Sep 16	Valuation at 31/12/15:	n/a
		Valuation method:	Price of recent investment

Investment comprises:

Ordinary shares:	£931,000	Proportion of equity held:	100%
Loan stock:	£399,000	Proportion of loan stock held:	100%

Summary of financial information from statutory accounts: None filed

In September 2016, £1.3 million was invested in Walworth House Pub Limited to enable it to purchase a large vacant freehold property in Walworth, South London, before converting it into a public house. The investment was made alongside Antic London, a long-term investment partner of the Downing funds. The pub is expected to open for trading in the summer of 2017.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘G’ SHARE POOL (continued)

Further details of the main investments:

Apex Energy Limited



Cost at 31/12/16:	£1,300,000	Valuation at 31/12/16:	£1,300,000
Date of first investment:	Nov 15	Valuation at 31/12/15:	£1,300,000
		Valuation method:	Price of recent investment

Investment comprises:

Ordinary shares:	£1,300,000	Proportion of equity held:	26%
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Summary financial information from statutory accounts: None filed

Apex Energy Limited is developing a standby electricity generation plant up to 20MW in capacity. The diesel plant, once operational, will provide electricity to the grid during periods of peak demand.

Hedderwick Limited



Cost at 31/12/16:	£1,250,000	Valuation at 31/12/16:	£1,250,000
Date of first investment:	Oct 15	Valuation at 31/12/15:	£1,250,000
		Valuation method:	Price of recent investment

Investment comprises:

Ordinary Shares:	£875,000	Proportion of equity held:	50%
Loan stock:	£375,000	Proportion of loan stock held:	15%

Summary financial information from statutory accounts: None filed

Hedderwick Limited owns Banyers House in Royston which has been trading since December 2016. The Company also owns a property in Olney, Buckinghamshire which is awaiting permission to be converted into a public house. Both sites are managed by Oakman Inns.

Baron House Developments LLP



Cost at 31/12/16:	£1,093,000	Valuation at 31/12/16:	£1,093,000
Date of first investment:	Apr 13	Valuation at 31/12/15:	£1,093,000
		Valuation method:	Multiples

Investment comprises:

Loan stock:	£1,093,000	Proportion of loan stock held:	23%
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Summary financial information from statutory accounts to 31 March

	2016	2015
Turnover:	£408,657	£7,942,876
Operating loss:	(£90,632)	(£529,875)
Net assets:	£4,850,105	£4,782,969

Baron House Developments LLP was created to fund the purchase of a property opposite Newcastle station, which qualifies under the Business Premises Renovation Allowance (BPRA) scheme.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘G’ SHARE POOL (continued)

Further details of the main investments:

Hermes Renewables Limited



Cost at 31/12/16:	£1,000,000	Valuation at 31/12/16:	£1,000,000
Date of first investment:	Apr 16	Valuation at 31/12/15:	n/a
		Valuation method:	Price of recent investment

Investment comprises:			
Equity:	£1,000,000	Proportion of equity held:	10%

Summary financial information from statutory accounts to 31 December*

	2015
Net assets:	£1

In 2016 £1.1 million was invested in Hermes Renewables Limited to build, own and operate a wood pelleting plant and is currently awaiting the planning permission for its preferred site. The wood pellets will be sold in the UK as fuel for biomass boilers.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as dormant company accounts filed

Summary of loan stock interest income

Loan stock interest recognised in the year from the ten largest investments held by the ‘G’ Share pool £’000

Atlantic Dogstar Limited	285
Antelope Pub Limited	141
Goonhilly Earth Station Limited	(26)
Quadrate Catering Limited	110
Quadrate Spa Limited	110
Walworth House Pub Limited	27
Apex Energy Limited	-
Hedderwick Limited	-
Baron House Developments LLP	-
Hermes Renewables Limited	-
	<hr/>
	647
Receivable from other investments	104
	<hr/>
	751
	<hr/> <hr/>

Analysis of investments by investment type

The following shows the split of the ‘G’ Share pool’s investment portfolio by type of instrument held at 31 December 2016:

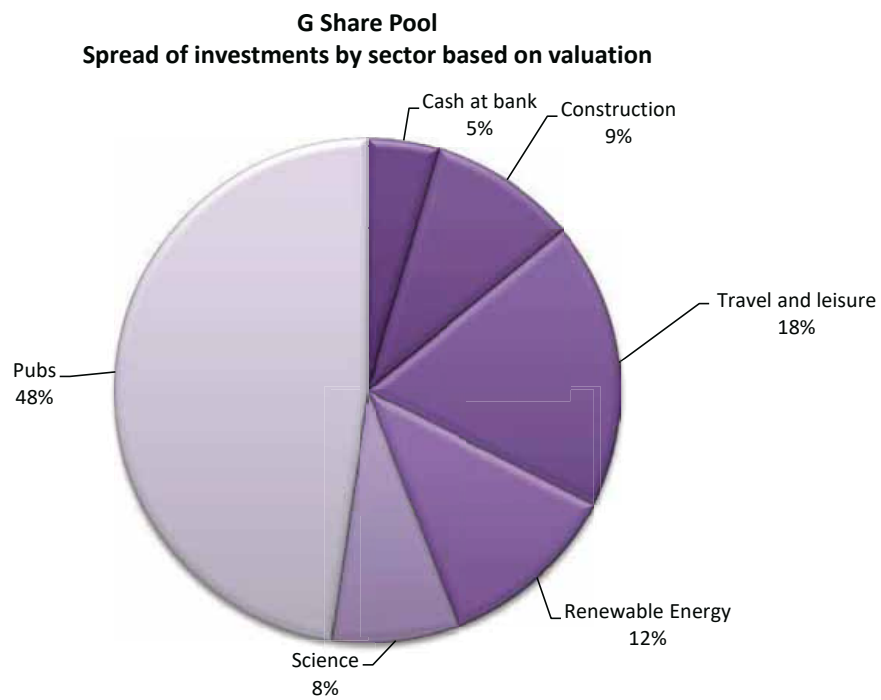
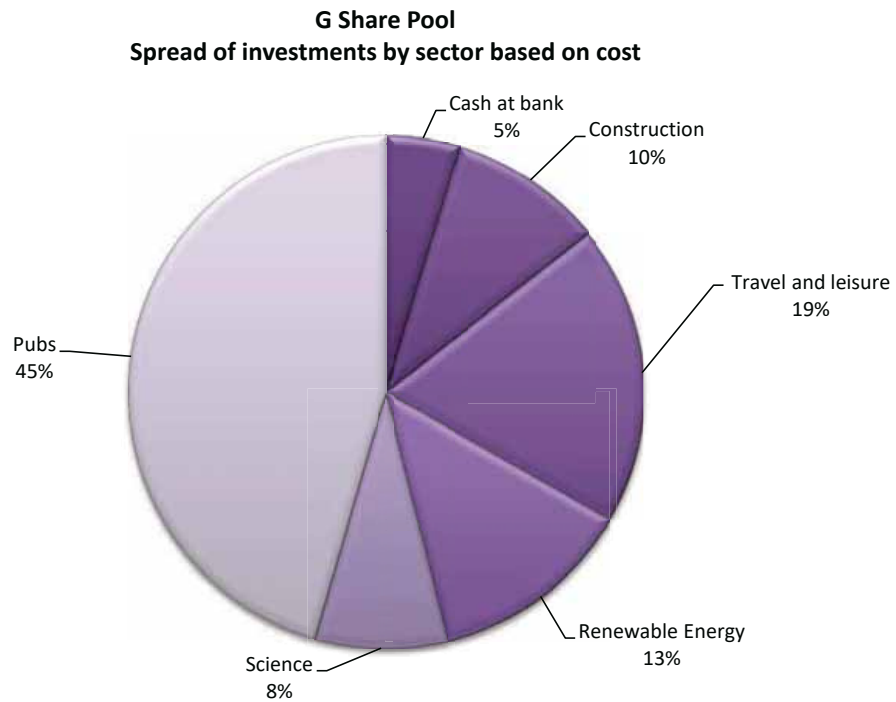
	Target Portfolio split	Actual Portfolio split 31 Dec 2016
Qualifying investments		
Loans to qualifying companies	50%	16%
Ordinary shares in qualifying companies	25%	61%
Non-qualifying investments (including cash at bank)	25%	23%
	<hr/>	<hr/>
	100%	100%
	<hr/> <hr/>	<hr/> <hr/>

REVIEW OF INVESTMENTS – ‘G’ SHARE POOL (continued)

Further details of the main investments:

Analysis of investments by commercial sector

The split of the ‘G’ Share pool’s venture capital investment portfolio by commercial sector (by cost and value at 31 December 2016) is as follows:



INVESTMENT MANAGER'S REPORT- 'K' SHARE POOL

Introduction

The 'K' Share pool closed its fundraising period on 30 September 2016 having raised £16.2 million. The process of investing the funds is well under way with £9.9 million invested in qualifying or part qualifying investments.

'K' Share pool - Net asset value and results

At 31 December 2016, the 'K' Share NAV was 99.0p, a decrease of 1.0p on the initial price, resulting from the initial "cash drag" from holding uninvested funds.

The return on ordinary activities for the 'K' Share pool for the year was a loss of £154,000 being wholly related to revenue.

'K' Share pool - Investment activity

11 initial qualifying investments have been made during the period totalling £9.9 million as we start to build the qualifying portfolio of the 'K' Share pool.

The qualifying investments include a £1.3 million investment in Yamuna Renewables Limited which is planning to build a wood pellet plant in Austria.

£1.0 million was invested in both Vectis Alpha Limited, which is seeking to build and develop renewable energy plants, and Brownfields Trading Limited, which is seeking to develop small-scale waste disposal projects.

£736,000 was invested into both Ironhide Generation Limited and Indigo Generation Limited. £591,000 was invested in Rockhopper Renewables Limited and £337,000 in SF Renewables (Solar) Limited which are all in the process of acquiring land in India to build and operate ground-mounted solar arrays.

Jito Trading Limited, Rhodes Solutions Limited and Morava Limited are all exploring opportunities in the wood refinery sector following investments of £1.5 million, £1.25 million and £1.1 million respectively.

£350,000 was invested in Zora Energy Renewables Limited, a new wood pellet sales and distribution business.

No valuation adjustments have been made in the period with all investments remaining at cost.

Outlook

The task of building the 'K' Share portfolio has very recently begun. We will continue to seek investment opportunities and develop the current investment portfolio over the remainder of the planned life of the share pool.

Downing LLP

26 April 2017

REVIEW OF INVESTMENTS – ‘K’ SHARE POOL

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 December 2016:

‘K’ Share pool

	Cost £’000	Valuation £’000	Valuation movement in year £’000	% of portfolio
VCT qualifying investments				
Jito Trading Limited	1,500	1,500	-	9.6%
Yamuna Renewables Limited	1,300	1,300	-	8.3%
Rhodes Solutions Limited	1,250	1,250	-	8.0%
Morava Limited	1,100	1,100	-	7.0%
Brownfields Trading Limited	1,000	1,000	-	6.4%
Vectis Alpha Limited	1,000	1,000	-	6.4%
Ironhide Generation Limited	736	736	-	4.7%
Indigo Generation Limited	736	736	-	4.7%
Rockhopper Renewables Limited	591	591	-	3.8%
Zora Energy Renewables Limited	350	350	-	2.2%
SF Renewables (Solar) Limited	337	337	-	2.2%
	<u>9,900</u>	<u>9,900</u>	<u>-</u>	<u>63.3%</u>
	<u>9,900</u>	<u>9,900</u>	<u>-</u>	<u>63.3%</u>
Cash at bank and in hand		<u>5,751</u>		<u>36.7%</u>
Total investments		<u><u>15,651</u></u>		<u><u>100.0%</u></u>

The movements in the portfolio during the year and the basis of valuation of the ten largest investments are set out above and on pages 31 to 35.

REVIEW OF INVESTMENTS – ‘K’ SHARE POOL (continued)

Summary of investment movements

Additions

	Cost £'000
VCT qualifying investments	
Jito Trading Limited	1,500
Yamuna Renewables Limited	1,300
Rhodes Solutions Limited	1,250
Morava Limited	1,100
Brownfields Trading Limited	1,000
Vectis Alpha Limited	1,000
Ironhide Generation Limited	736
Indigo Generation Limited	736
Rockhopper Renewables Limited	591
Zora Energy Renewables Limited	350
SF Renewables (Solar) Limited	337
Total ‘K’ Share pool	<u><u>9,900</u></u>

REVIEW OF INVESTMENTS – ‘K’ SHARE POOL (continued)

Further details of the main investments:

Jito Trading Limited



Cost at 31/12/16:	£1,500,000	Valuation at 31/12/16:	£1,500,000
Date of first investment:	Apr 16	Valuation at 31/12/15:	n/a
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary shares:	£1,500,000	Proportion of equity held:	30%

Summary financial information from statutory accounts: None filed

Jito Trading Limited was incorporated with the intention of operating in the wood refinery sector and is currently seeking viable opportunities in the market. The processed wood will be sold as fuel for biomass boilers.

Yamuna Renewables Limited



Cost at 31/12/16:	£1,300,000	Valuation at 31/12/16:	£1,300,000
Date of first investment:	Apr 16	Valuation at 31/12/15:	n/a
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary shares:	£1,300,000	Proportion of equity held:	26%

Summary financial information from statutory accounts: None filed

In April 2016, the K Share pool invested £1.3 million into Yamuna Renewables Limited alongside other Downing VCTs, for the construction and development of a 40kt per anum wood pelleting plant in Gars am Kamp, Austria. The company is working with ARC Applied Sciences to use their patented design and technology to deliver the plant.

Rhodes Solutions Limited



Cost at 31/12/16:	£1,250,000	Valuation at 31/12/16:	£1,250,000
Date of first investment:	Apr 16	Valuation at 31/12/15:	n/a
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary shares:	£1,250,000	Proportion of equity held:	25%

Summary financial information from statutory accounts: None filed

The K Share pool invested £1.25 million in Rhodes Solutions Limited in 2016 with the intention of operating in the wood refinery sector for biomass boilers and is currently looking for viable sites.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘K’ SHARE POOL (continued)

Further details of the main investments:

Morava Limited



Cost at 31/12/16:	£1,100,000	Valuation at 31/12/16:	£1,100,000
Date of first investment:	Apr 16	Valuation at 31/12/15:	n/a
		Valuation method:	Price of recent investment
Investment comprises:			
Ordinary shares:	£1,100,000	Proportion of equity:	22%

Summary financial information from statutory accounts: None filed

Morava Limited was set up to build, develop and operate biomass boilers in the wood refinery industry and is looking at a number of potential sites and management.

Brownfields Trading Limited



Cost at 31/12/16:	£1,000,000	Valuation at 31/12/16:	£1,000,000
Date of first investment:	Apr 16	Valuation at 31/12/15:	n/a
		Valuation method:	Price of recent investment
Investment comprises:			
Ordinary shares:	£1,000,000	Proportion of equity held:	20%

Summary financial information from statutory accounts: None filed

The K Share pool invested £1 million in Brownfields Trading Limited in April 2016 alongside other Downing VCTs. The company will build and develop small scale gasification projects for waste disposal.

Vectis Alpha Limited



Cost at 31/12/16:	£1,000,000	Valuation at 31/12/16:	£1,000,000
Date of first investment:	Apr 16	Valuation at 31/12/15:	n/a
		Valuation method:	Price of recent investment
Investment comprises:			
Ordinary shares:	£1,000,000	Proportion of equity held:	20%

Summary financial information from statutory accounts: None filed

Vectis Alpha Limited was incorporated with the intention of operating standard and containerised Combined Heat and Power (“CHP”) plants to generate electrical power and capture exhaust heat and is currently looking for viable opportunities in the market.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

REVIEW OF INVESTMENTS – ‘K’ SHARE POOL (continued)

Further details of the main investments:

Ironhide Generation Limited



Cost at 31/12/16:	£736,000	Valuation at 31/12/16:	£736,000
Date of first investment:	Apr 16	Valuation at 31/12/15:	n/a
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary Shares:	£736,000	Proportion of equity held:	15%

Summary financial information from statutory accounts: None filed

The K Share pool, other Downing VCTs and Armstrong Energy are working together with Ironhide Generation Limited which is seeking to acquire land in Maharashtra, India to build and operate a single ground-mounted PV system of up to 15MW in capacity. The power will be sold to a number of commercial partners.

Indigo Generation Limited



Cost at 31/12/16:	£736,000	Valuation at 31/12/16:	£736,000
Date of first investment:	Apr 16	Valuation at 31/12/15:	n/a
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary shares:	£736,000	Proportion of equity held:	15%

Summary financial information from statutory accounts: None filed

In April 2016 the K Share pool invested alongside other Downing funds and VCT into Indigo Generation Limited. The company forms part of the Indian Solar group of companies and is seeking to build and operate a single ground-mounted PV system up to 15MW in capacity.

Rockhopper Renewables Limited



Cost at 31/12/16:	£591,000	Valuation at 31/12/16:	£591,000
Date of first investment:	Mar 14	Valuation at 31/12/15:	n/a
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary shares:	£591,000	Proportion of equity held:	13%

Summary financial information from statutory accounts to 31 October*

	2015	2014
Net assets:	£1	£1

Rockhopper Renewables Limited forms part of the Indian Solar group of investments. The company is seeking to acquire land in Telangana, India to build and operate a single ground-mounted PV system up to 7MW in capacity.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as dormant company accounts filed

REVIEW OF INVESTMENTS – ‘K’ SHARE POOL (continued)

Further details of the main investments:

Zora Energy Renewables Limited



Cost at 31/12/16:	£350,000	Valuation at 31/12/16:	£350,000
Date of first investment:	Oct 16	Valuation at 31/12/15:	n/a
		Valuation method:	Price of recent investment

Investment comprises:			
Ordinary shares:	£350,000	Proportion of equity held:	15%

Summary financial information from statutory accounts: None filed

In April 2016, the K Share pool invested £350,000 alongside other Downing VCTs invested into Zora Energy Renewables Limited. The company will develop and distribute a brand of high quality wood pellets for sale in the UK to commercial and domestic users of biomass boilers.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

Summary of loan stock interest income

Loan stock interest recognised in the year from the ten largest investments held by the ‘K’ Share pool	£’000
Jito Trading Limited	-
Yamuna Renewables Limited	-
Rhodes Solutions Limited	-
Morava Limited	-
Brownfields Trading Limited	-
Vectis Alpha Limited	-
Ironhide Generation Limited	-
Indigo Generation Limited	-
Rockhopper Renewables Limited	-
Zora Energy Renewables Limited	-
	<hr/>
Receivable from other investments	-
	<hr/>
	<hr/>

Analysis of investments by investment type

The following shows the split of the ‘K’ Share pool’s investment portfolio by type of instrument held at 31 December 2016:

	Target Portfolio split	Actual Portfolio split 31 Dec 2016
Qualifying investments		
Loans to qualifying companies	50%	0%
Ordinary shares in qualifying companies	25%	63%
Non-qualifying investments (including cash at bank)	25%	37%
	<hr/>	<hr/>
	100%	100%
	<hr/>	<hr/>

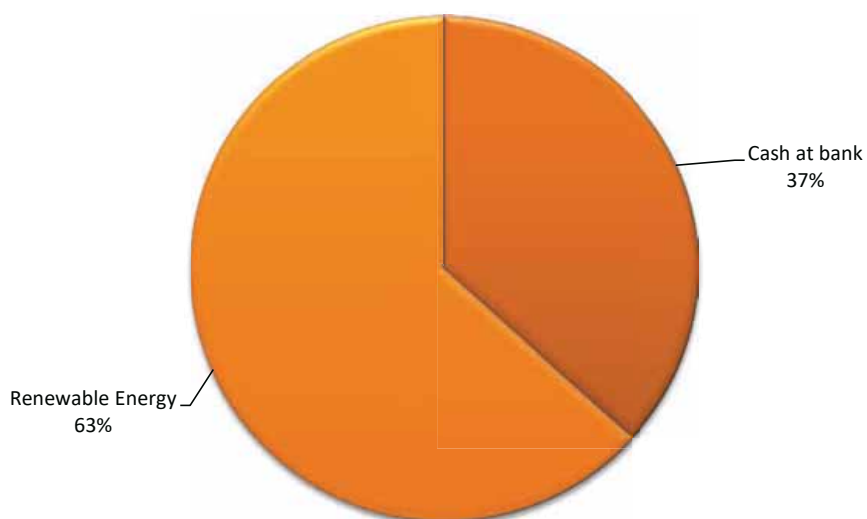
REVIEW OF INVESTMENTS – ‘K’ SHARE POOL (continued)

Further details of the main investments:

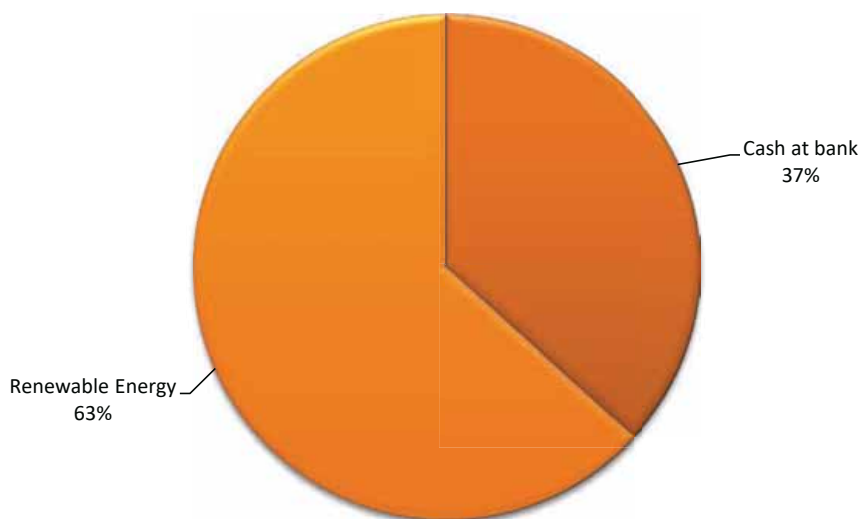
Analysis of investments by commercial sector

The split of the ‘K’ Share pool’s venture capital investment portfolio by commercial sector (by cost and value at 31 December 2016) is as follows:

K Share Pool
Spread of investments by sector based on cost



K Share Pool
Spread of investments by sector based on valuation



STRATEGIC REPORT

The Directors present the Strategic Report for the year ended 31 December 2016. The Board have prepared this report in accordance with the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Principal objectives and strategy

The Company's principal objective is to provide Shareholders with an attractive level of tax-free capital gains and income generated from a portfolio of investments in a range of different sectors.

The Company's strategy for achieving this objective is to:

- invest in a portfolio of venture capital investments across a range of differing sectors, primarily in the UK and EU and;
- comply with the VCT regulations to enable Shareholders to retain the initial income tax relief and ongoing tax reliefs.

Business review and developments

'C' Share pool

The 'C' Share pool began the year with £748,000 of investments which were realised in full during the year.

The loss on ordinary activities after taxation for the year was £29,000, being wholly related to revenue.

'D' Share pool

The 'D' Share pool began the year with £4.4 million of investments and ended with £2.4 million spread across a portfolio of seven companies. Four of these, with a value of £790,000, were VCT qualifying (or part qualifying).

The profit on ordinary activities after taxation for the year was £176,000, comprising a revenue loss of £58,000 and a capital gain of £234,000.

'F' Share pool

The 'F' Share pool began the year with £7.4 million of investments and ended the year with £7.2 million spread across a portfolio of 23 companies. 19 of these investments, with a value of £6.4 million, were VCT qualifying (or part qualifying).

The profit on ordinary activities after taxation for the year was £302,000, comprising a revenue loss of £113,000 and a capital gain of £415,000.

'G' Share pool

The 'G' share pool began the year with £18.9 million of investments and ended with £20.2 million of investments spread across a portfolio of 19 companies. 12 of these, with a value of £15.2 million, were VCT qualifying (or part qualifying).

The profit on ordinary activities after taxation for the year was £550,000, comprising a revenue profit of £74,000 and a capital gain of £476,000.

'K' Share pool

The 'K' share pool ended the year with £9.9 million of investments spread across a portfolio of 11 companies. All of these were VCT qualifying (or part qualifying).

The loss on ordinary activities after taxation for the year was £154,000, being wholly related to revenue.

The Company's business and developments during the year are reviewed further within the Chairman's Statement, Investment Manager's Reports and the Review of Investments for each share pool.

Key performance indicators

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in meeting its objectives (as shown on page 2). The Board believes the Company's key performance indicators are Net Asset Value Total Return (NAV plus cumulative dividends paid to date) and dividends per share (see financial highlights on page 2). In addition, the Board considers the Company's performance in relation to other VCTs.

Principal risks and uncertainties

The principal financial risks faced by the Company, which include interest rate, market price, credit and liquidity risks, are summarised within note 17 to the financial statements.

In addition to these risks, the Company, as a fully listed company on the London Stock Exchange with a premium listing and as a Venture Capital Trust, operates in a complex regulatory environment and therefore faces a number of related risks. A breach of the VCT regulations could result in the loss of VCT status and consequent loss of tax reliefs currently available to Shareholders and the Company being subject to capital gains tax. Serious breaches of other regulations, such as the Listing Rules of the Financial Conduct Authority and the Companies Act 2006, could lead to suspension from the Stock Exchange and damage to the Company's reputation.

The Board reviews and agrees policies for managing each of these risks. They receive quarterly reports from the Manager which monitors the compliance of these risks, and places reliance on the Manager to give updates in the intervening months. These policies have remained unchanged since the beginning of the financial year.

STRATEGIC REPORT (continued)

Viability statement

In accordance with C.2.1 and C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have carried out a robust assessment of the principal risks facing the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board has conducted this review for a period of three years from the sign off date as developments are considered to be reasonably foreseeable over this period.

The three year review considers the principal risks facing the Company which are summarised within note 17 as well as the Company's cash flows, dividend cover and VCT monitoring compliance over the period. The three year review makes assumptions about the level of investment activity, expenditure, dividends and share buybacks.

The Directors believe that the Company is well placed to manage its business risks successfully. Based on the results, the Board confirms that, taking into account the Company's current position and subject to the principal risks faced by the business, the Company will be able to continue in operation and meet its liabilities as they fall due for a period of at least three years from the balance sheet date.

Business model

The Company operates as a Venture Capital Trust to ensure its Shareholders can benefit from tax reliefs available.

The business of the Company is to act as an investment company, investing in a portfolio which meets the conditions set within its Investment Policy, as shown below.

Investment policy

Qualifying investments

Qualifying investments comprise investments in UK trading companies that own substantial assets (over which a charge will be taken by the Company) or have predictable revenue streams from financially sound customers.

Non-qualifying investments

Existing funds not employed in qualifying investments are predominantly invested in:

- Secured loans; and/or
- Fixed income securities.

Secured loans are secured on property or other assets. Fixed Income Securities consist of bonds issued by the UK Government, major companies and institutions and will have credit ratings of not less than A minus (Standard & Poor's rated)/A3 (Moody's rated). Both Standard & Poor's and Moody's are independent rating agencies not registered in the EU.

Following changes to the VCT Regulations that came into force on 6 April 2016, new non-qualifying investments are now effectively restricted to cash deposits and investments in quoted securities, investment trusts and OEICs.

The target allocation of the Company's funds is summarised as follows:

Qualifying investments	75%
Non-qualifying investments	25%
	<hr/> <hr/> 100%

Listing rules

In accordance with the Listing Rules:

- (i) the Company may not invest more than 10%, in aggregate, of the value of the total assets of the Company at the time an investment is made in other listed closed-ended investment funds except listed closed-ended investment funds which have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds;
- (ii) the Company must not conduct any trading activity which is significant in the context of the Company; and
- (iii) the Company must, at all times, invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published investment policy set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 of the Income Tax Act 2007.

The above Listing Rules have been complied with for the year ended 31 December 2016.

Venture Capital Trust Regulations

In continuing to maintain its VCT status, the Company complies with a number of regulations as set out in Part 6 of the Income Tax Act 2007. How the main regulations apply to the Company is summarised on the following page:

STRATEGIC REPORT (continued)

Investment policy (continued)

Venture Capital Trust Regulations (continued)

1. The Company holds at least 70% of its investments in qualifying companies (as defined by Part 6 of the Income Tax Act 2007);
2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" ("eligible shares" generally being ordinary share capital) for funds raised before 6 April 2011 and at least 70% in "eligible shares" for funds raised on or after 6 April 2011;
3. At least 10% of each investment in a qualifying company is held in "eligible shares" (by cost at time of investment);
4. No investment constitutes more than 15% of the Company's portfolio (by value at time of investment);
5. The Company's income for each financial year is derived wholly or mainly from shares and securities; and
6. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained.

Borrowings

It is not the Company's intention to have any borrowings. The Company does, however, have the ability to borrow a maximum amount equal to 50% of the funds raised under its offers for subscription, of the aggregate amount paid on any shares issued by the Company together with any share premium thereon, currently equal to £10.0 million. There are no plans to utilise this ability at the current time.

Performance incentive fees

'C' Share pool and 'D' Share pool

The investments, other assets and liabilities of each share class are managed as separate pools and, accordingly, performance incentive arrangements are specific to each pool. No performance incentive will be payable until Shareholders:

- i) receive proceeds, by way of dividends/distributions/ share buybacks ("Total Proceeds"), of at least 100.0p per £1 invested; and
- ii) achieve a tax-free compound return of at least 7% per annum (after allowing for income tax relief on investment).

Subject to these conditions being met, Total Proceeds will be distributed as follows:

Shareholders	97% of the first 100.0p of proceeds per £1 invested and 80% thereafter
Management	3% of the first 100.0p of proceeds and 20% thereafter.

If the above distribution would result in Shareholders receiving less than 100.0p per £1 invested or lower than a 7% compound return, the return to the Management Team will be reduced until Shareholders receive at least 100.0p per £1 invested and a 7% compound return. Management's share of the Total Proceeds will be subject to a cap at 1.25% of net assets per share pool per annum and will only be payable if the hurdle is achieved.

The maximum Performance Incentive is limited to an amount equivalent to 1.25% of net assets per annum per share pool (the "Cap"). If, in any accounting year, the performance incentive payable is less than the Cap then the shortfall shall be aggregated to the Cap in respect of the following accounting year and so on until fully utilised.

'F' Share pool

The Performance Incentive fee in respect of the 'F' Share pool will only become payable if 'F' Shareholders:

- i) receive Shareholder Proceeds of at least 100.0p per 'F' Share (excluding initial income tax relief); and
- ii) achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

If the Hurdles are met, the Performance Incentive will be 3.0p per 'F' Share plus 20% above 100.0p per 'F' Share of the funds available (for distribution to 'F' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount over the life of the 'F' Share pool equivalent to 7.0p per 'F' Share (based on the number of 'F' Shares in issue at the close of the Offer).

For example, if the total funds available for distribution were 110.0p per 'F' Share, then the Performance Incentive would be 5.0p per 'F' Share (3.0p plus 20% x 10.0p), leaving Shareholder Proceeds of 105.0p per 'F' Share (assuming the Hurdles have been met and ignoring any benefit from corporation tax relief on the Performance Incentive). If the total funds available for distribution were instead 130.0p per 'F' Share, the Performance Incentive would be capped at 7.0p per 'F' Share, leaving Shareholder Proceeds of 123.0p per 'F' Share.

STRATEGIC REPORT (continued)

Performance incentive fees (continued)

'G' Share pool

The Performance Incentive fee in respect of the 'G' Share pool will only become payable if 'G' Shareholders:

- i) receive Shareholder Proceeds of at least 105.82p per 'G' Share (excluding initial income tax relief); and
- ii) achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

If the Hurdles are met, the Performance Incentive will be 3.0p per 'G' Share plus 20% above 105.82p per 'G' Share of the funds available (for distribution to 'G' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount over the life of the 'G' Share pool equivalent to 7.0p per 'G' Share (based on the number of 'G' Shares in issue at the close of the Offer).

'K' Share pool

The Performance Incentive fee in respect of the 'K' Shares will only become payable if 'K' Shareholders:

- i) have the opportunity to receive Shareholder Proceeds of at least 100p per 'K' Share (excluding initial income tax relief); and
- ii) achieve a tax-free Compound Return of at least 6% per annum (after allowing for income tax relief on the investment) (together the "Hurdles").

If the Hurdles are met, the Performance Incentive will be 20% of the aggregate excess on any amounts distributed by the Company in excess of 100p per 'K' Share (calculated before payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met, and will be subject to a maximum amount (over the period to when an exit is provided) equivalent to 6.0p per 'K' Share (based on the number of 'K' Shares in issue at the close of the Offer).

On 24 March 2016, final dividends were paid for the 'C' Share and 'A' Share classes. The effective performance incentive fee paid to members of the management team was £544,000.

As the targets for all other pools have not been met, no other fee is due to be paid for the year ended 31 December 2016.

Proposed amendment to the Articles of the Company

A resolution will be put to Shareholders seeking approval to amend the Articles of the Company to reduce the administrative burden on the Company as each of its planned exit share classes approaches the end of their respective lifecycles. Further detail can be found in the notice of the AGM on page 91.

Environmental, social and human rights policy

The Company seeks to conduct its affairs responsibly. Where appropriate, the Board take environmental, social and human rights factors into consideration when making investment decisions.

Global greenhouse gas emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Directors and senior management

The Company does not have any employees, including senior management, other than the Board of three non-executive directors. All Directors are male.

Future prospects

The Company's future prospects are set out in the Chairman's Statement and Investment Manager's Reports.

By order of the Board



Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London SW1P 2AL

26 April 2017

REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the year ended 31 December 2016.

Share capital

At the year end, the Company had in issue 7,126,194 'C' Shares of 0.1p each, 10,724,029 'A' Shares of 0.1p each, 10,000,000 'D' Shares of 0.1p each, 14,950,000 'E' Shares of 0.1p each, 10,810,859 'F' Shares of 0.1p each, 25,352,571 'G' Shares of 0.1p each and 15,739,341 'K' Shares of 0.1p each.

On 20 April 2017, the 'C' Shares and 'A' Shares were converted into deferred shares and subsequently cancelled and delisted.

Only the holders of the 'C' Shares, 'D' Shares, 'F' Shares, 'G' Shares and 'K' Shares have voting rights, except where there are issues in respect of the variation of rights of the 'A' Shares and 'E' Shares. There are no other share classes in issue.

Assets attributable to the 'C' Shares and 'A' Shares ("C' Share pool"), the 'D' Shares and 'E' Shares ("D' Share pool") the 'F' Shares ("F' Share pool"), the 'G' Shares ("G' Share pool") and the 'K' Shares ("K' Share pool") are maintained as separate investment pools.

The Company has a general policy of buying in for cancellation its own shares that become available in the market.

During the year, the Company purchased 11,295 'F' Shares at a price of 66.5p per share and 33,975 'G' Shares at a price of 83.5p per share. These shares were subsequently cancelled. No shares were purchased in the year to 31 December 2015 in respect of the 'C' Shares, 'D' Shares, 'F' Shares or 'K' Shares.

At the AGM that took place on 15 June 2016, the Company was authorised to make market purchases of its 'C' Shares, 'A' Shares, 'D' Shares, 'E' Shares, 'F' Shares and 'G' Shares up to a limit of 1,061,802 'C' Shares, 1,597,880 'A' Shares, 1,490,000 'D' Shares, 2,227,550 'E' Shares, 1,612,501 'F' Shares and 3,782,595 'G' Shares which represented approximately 14.9% of the issued share capital of each share class respectively at the date of the AGM.

At the current date, authority remains for 1,490,000 'D' Shares, 2,227,550 'E' Shares, 1,601,206 'F' Shares, 3,748,620 'G' Shares and 2,345,162 'K' Shares. A resolution to renew this authority will be put to Shareholders at the AGM taking place on 20 June 2017.

The minimum price which may be paid for a 'D' Share, 'E' Share, 'F' Share, 'G' Share or a 'K' Share is 0.1p, exclusive of all expenses, and the maximum price which may be paid for a 'D' Share, 'E' Share, 'F' Share, 'G' Share or a 'K' Shares is an amount, exclusive of all

expenses, equal to 105% of the average of the middle market quotations.

Results and dividends

	£'000	Pence per share
Return/(loss) on ordinary activities after tax for the year ended 31 December 2016 split as:		
'C' Shares	(29)	(0.4)
'D' Shares	176	1.7
'F' Shares	302	2.8
'G' Shares	550	2.2
'K' Shares	<u>(154)</u>	<u>(1.4)</u>
Total	<u>845</u>	

Distributions paid during the current year

24 March 2016 ('C' Shares)	2,182	30.6
24 March 2016 ('A' Shares)	1,632	15.2
24 March 2016 ('D' Shares)	1,700	17.0
24 June 2016 ('F' Shares)	270	2.5
24 June 2016 ('G' Shares)	635	2.5
16 December 2016 ('F' Shares)	270	2.5
16 December 2016 ('G' Shares)	<u>634</u>	<u>2.5</u>
	<u>7,323</u>	

Following the year end, dividends of 13.5p per 'D' Share, were paid on 24 March 2017 to Shareholders on the register at 3 March 2017.

Your Board is proposing to pay a final dividend of 2.5p per 'F' Share and 2.5p per 'G' Share payable on 30 June 2017 to Shareholders on the register at 26 May 2017.

Directors

The Directors during the year and their audited beneficial interests in the issued shares of the Company at 31 December 2015 and 31 December 2016 were as follows:

Directors		No. of shares	
		31 Dec 2016	31 Dec 2015
Hugh Gillespie	'C' Shares	5,250	5,250
	'A' Shares	5,250	5,250
	'G' Shares	4,900	4,900
	'K' Shares	5,006	-
Dennis Hale	'C' Shares	7,385	7,385
	'A' Shares	7,385	7,385
	'D' Shares	13,600	13,600
	'E' Shares	13,600	13,600
	'F' Shares	5,175	5,175
Christopher McCann	'G' Shares	5,820	5,820
		-	-

REPORT OF THE DIRECTORS (continued)

Directors (continued)

Between 31 December 2016 and the date of this report there were no movements in the Director's shareholdings other than the conversion and delisting of the 'C' Shares and 'A' Shares as noted above.

Christopher McCann was last re-elected at the AGM that took place in April 2016. In accordance with the Articles of Association he is not required to retire for three AGMs following the 2016 AGM. In accordance with corporate governance practice, by virtue of serving on the board for more than nine years, Hugh Gillespie and Dennis Hale will retire at each Annual General Meeting and being eligible, offer themselves for re-election. The Board recommends that Shareholders take into consideration each Director's considerable experience in VCTs and other areas, as shown in their respective biographies on page 3 together with the results for the year to date, in order to support the resolutions to re-appoint the Directors.

The terms of appointment of each of the directors are detailed in a letter of appointment dated February 2016. These agreements are for a period of three years and thereafter are terminable on three months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

Directors' and Officers' liability insurance cover is held by the Company in respect of the Directors.

Investment and administration manager

Downing LLP ("DLLP") provides investment management services to the Company. DLLP is paid 1.35% of the 'C' and 'D' Share net assets per annum, 1.8% of the 'F' Share net assets per annum and 2.0% of the 'G' and 'K' Share net assets per annum. Additionally, DLLP provides administration services to the Company for a fee of £60,000 (plus RPI adjustment) per annum.

The Board is satisfied with DLLP's approach and procedures in providing investment management services to the Company. The Directors have therefore concluded that the continuing appointment of DLLP as Investment Manager remains in the best interest of Shareholders.

The agreement is for a minimum term of three years with a twelve month notice period on either side at any time after two years following the commencement of the agreement.

The annual running costs of the Company, for the year, are also subject to a cap of 2.9% of net assets for the 'C' and 'D' Share pools, 3.5% of net assets for the 'F' and 'G' Share pools and 3.0% of net assets for the 'K' Share pool of the Company. Any excess costs over this cap are met by DLLP through a reduction in fees.

Trail commission

The Company has an agreement to pay trail commission annually, to Downing LLP, in connection with the funds raised under the offer for subscription. This is calculated at 0.25% of the net assets of the Company at each year end for the 'C' and 'D' Share pools and 0.5% for the 'F' Share pool.

VCT status

The Company has reappointed Philip Hare & Associates LLP ("Philip Hare") to advise it on compliance with VCT requirements, including evaluation of investment opportunities and regular review of the portfolio. Although Philip Hare works closely with the Investment Manager, they report directly to the Board.

A summary of the VCT Regulations is included in the Company's Investment Policy shown on pages 38 and 39. Compliance with the main VCT Regulations for the year ended 31 December 2016 is summarised as follows:

1. The Company holds at least 70% of its investments in qualifying companies; 76.8%
2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" ("eligible shares" generally being ordinary share capital) for funds raised before 6 April 2011; 46.1%
- 2a. At least 70% of the Company's qualifying investments (by value) are held in "eligible shares" ("eligible shares" generally being ordinary share capital) for funds raised on or after 6 April 2011; 81.1%
3. At least 10% of each investment held in "eligible shares"; Complied
4. No investment constitutes more than 15% of the Company's portfolio; Complied
5. Income is derived wholly or mainly from shares and securities; and 85.8%
6. No more than 15% of the income from shares and securities is retained. Complied

Creditor payment policy

The Company's payment policy is to pay creditors within thirty days of receipt of an invoice except where other terms have been agreed. The Company did not have any trade creditors at the year end.

REPORT OF THE DIRECTORS (continued)

Substantial interests

As at 31 December 2016 and the date of this report, the Company had not been notified of any beneficial interest exceeding three per cent of any class of Share Capital.

Auditor

Due to the current auditor's tenure, the Company is required to undertake an audit tender for the year ended 31 December 2017.

Following the Company's year end, the audit tender process took place in April 2017.

A resolution to re-appoint BDO LLP as the Company's Auditor will be proposed at the forthcoming AGM.

Annual General Meeting

The Annual General Meeting will be held at Ergon House, Horseferry Road, London, SW1P 2AL at 10:45 a.m. on 20 June 2017. The Notice of the Annual General Meeting and Form of Proxy are at the end of this document.

Directors' responsibilities statement

The Directors are responsible for preparing the Report of the Directors, the Directors' Remuneration Report, the Strategic Report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Conduct Authority.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law), including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (FRS 102). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, to disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In addition, each of the Directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed on page 3, confirms that, to the best of each person's knowledge:

- the financial statements, which have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the management report included within the Report of the Directors, Strategic Report, Chairman's Statement, Investment Manager's Reports and Review of Investments includes a fair review of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that it faces.

REPORT OF THE DIRECTORS (continued)

Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the website of the Administration Manager (www.downing.co.uk) in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

Corporate governance

The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code September 2014 (www.frc.org.uk) is shown on pages 52 to 53.

Other matters

Information in respect of financial instruments and future developments which were previously disclosed within the Directors Report has been disclosed within the Strategic Report on pages 37 to 40.

Information in respect of greenhouse gas emissions which is normally disclosed within the Report of the Directors has been disclosed within the Strategic Report on page 40.

Statement as to disclosure of information to Auditor

The Directors in office at the date of the report have confirmed, as far as they are aware, that there is no relevant audit information of which the Auditor is unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Auditor.

By order of the Board



Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London SW1P 2AL

26 April 2017

DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of Section 420 to 422 of the Companies Act 2006. A resolution to approve this report will be put to the Shareholders at the Annual General Meeting to be held on 20 June 2017.

Under the requirements of Section 497, the Company's Auditors are required to audit certain disclosures contained within the Report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditor's Report on pages 55 to 57.

Directors' remuneration policy

Below is the Company's remuneration policy. Shareholders approved this policy at the AGM in June 2014. In accordance with the regulations, Shareholders must vote on the remuneration policy, for the financial year commencing after the AGM, every three years or sooner if the Company wants to make changes to the policy. Therefore, the policy will be put to Shareholders again at the AGM in 2017.

The Company's policy on Directors' remuneration is to seek to remunerate board members at a level appropriate for the time commitment required and degree of responsibility involved for a Venture Capital Trust.

Directors' remuneration is calculated in accordance with the Company's Articles of Association as follows:

- (i) The Directors shall be paid out of the funds of the Company by way of fees for their services an aggregate sum not exceeding £100,000 per annum (excluding any performance incentive fees to which the Directors may be entitled from time to time). The Directors shall also receive by way of additional fees such further sums (if any) as the Company in General Meeting may from time to time determine. Such fees and additional fees shall be divided among the Directors in such proportion and manner as they may determine and in default of the determination equally.

- (ii) The Directors shall be entitled to be repaid all reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors including any expenses incurred in attending meetings of the Board or of Committees of the Board or General Meetings and if in the opinion of the Directors it is desirable that any of their number should make any special journeys or perform any special services on behalf of the Company or its business, such Director or Directors may be paid reasonable additional remuneration and expenses as the Directors may from time to time determine.

Service contracts

Each of the Directors is engaged under a letter of appointment or consultancy agreement for a fixed term of three years from the date of their appointment and thereafter on a three month rolling notice.

Directors' remuneration (audited)

Directors' remuneration for the Company for the year under review was as follows:

	Current annual fee £	Year ended 31/12/16 £	Year ended 31/12/15 £
Hugh Gillespie	27,500	25,000	25,000
Dennis Hale	15,000	12,500	12,500
Christopher McCann	22,000	20,000	6,667
	<u>64,500</u>	<u>57,500</u>	<u>44,167</u>

Following the period end, it was agreed to increase the Directors' remuneration to the levels shown in the table above effective from 1 January 2017.

No other emoluments or pension contributions were paid by the Company to, or on behalf of, any Director. The Company does not have any share options in place.

Statement of voting at AGM

At the AGM on 15 June 2016, the votes in respect of the resolution to approve the Director's Remuneration Report were as follows:

In favour	95.1%
Against	4.9%
Withheld	nil votes

At the 2014 AGM, where the remuneration policy was last put to a Shareholder vote, 94.7% voted for the resolution and 5.3% against, showing significant Shareholder support.

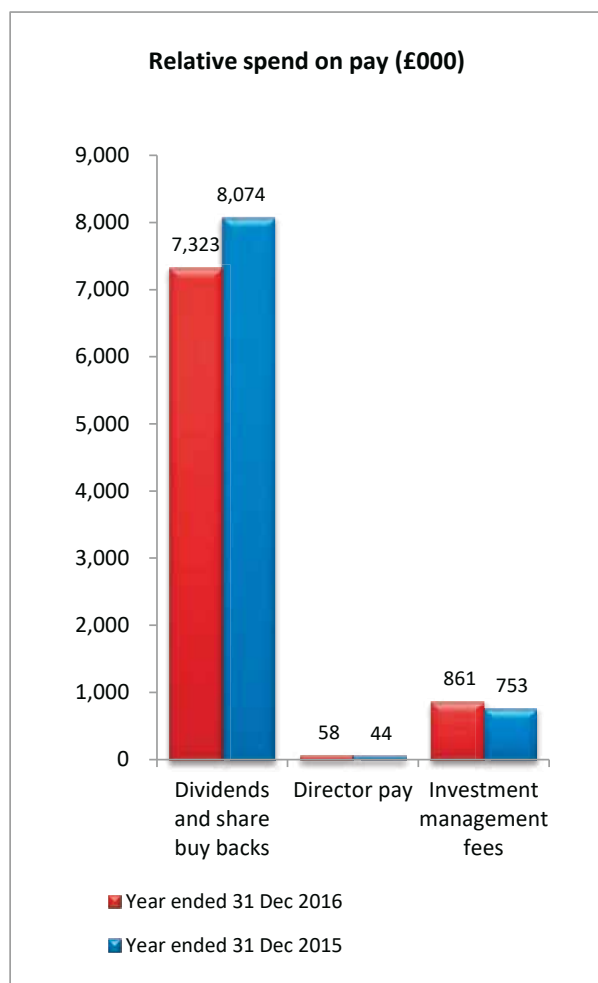
DIRECTORS' REMUNERATION REPORT (continued)

Directors' shareholdings (audited)

Information in respect of the Directors beneficial interests in the issued shares of the Company at 31 December 2016 and 31 December 2015 has been disclosed within the Report of the Directors on page 41.

Relative importance of spend on pay

The difference in actual spend between December 2015 and December 2016 on remuneration for all employees in comparison to distributions (dividends and share buy backs) and other significant spending are set out in the tabular graph below: -



Insurance cover

Directors' and Officers' liability insurance cover is held by the Company in respect of the Directors.

Performance graph

The charts on the next page represent the 'C' Share pool, 'D' Share pool, 'F' Share pool, 'G' Share pool and 'K' Share pool performance over the period since shares were first listed on the London Stock Exchange and compares the Total Return of the Company (Net Asset Value plus dividends) to a rebased Numis Smaller Companies Index including dividends reinvested. The Numis Smaller Companies Index has been chosen as a comparison as the Board considers it is the publicly available index which most closely matches the spread of investments held by the Company. It has been rebased to 100 at the launch date of each respective pool.

Statement by the Chairman of the remuneration committee

Following the period end, Directors' fees were reviewed by the remuneration committee during its meeting on 21 February 2017, when it was agreed to increase the total Directors fees to £64,500 per annum with effect from 1 January 2017.

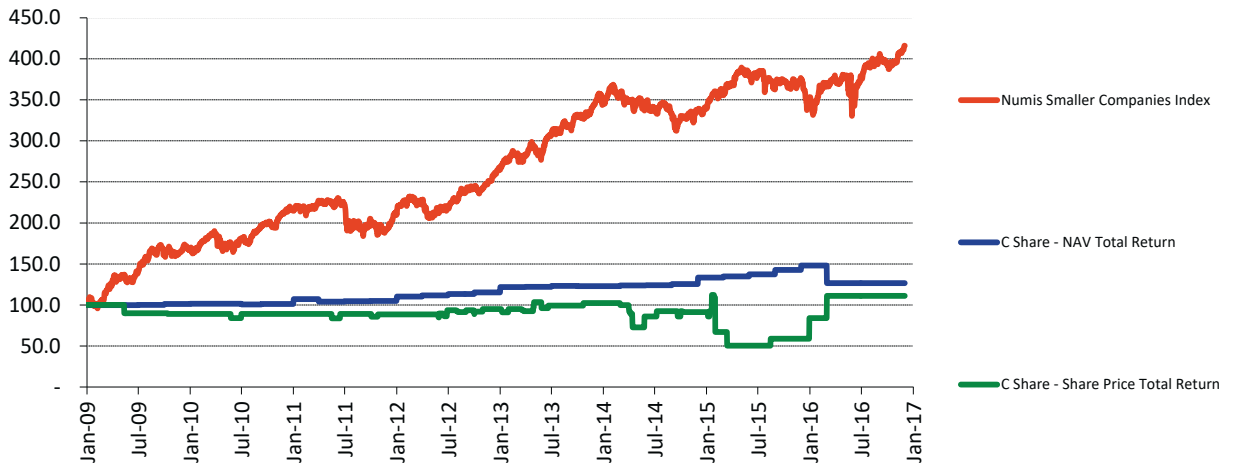
By order of the Board

Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London
SW1P 2AL

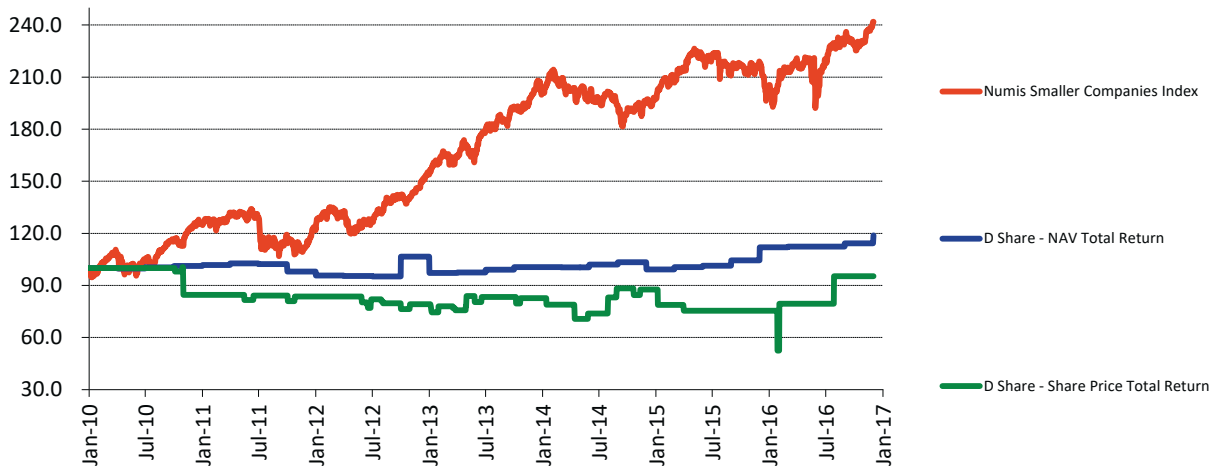
26 April 2017

DIRECTORS' REMUNERATION REPORT (continued)

**Downing TWO VCT plc
'C' Share performance chart**



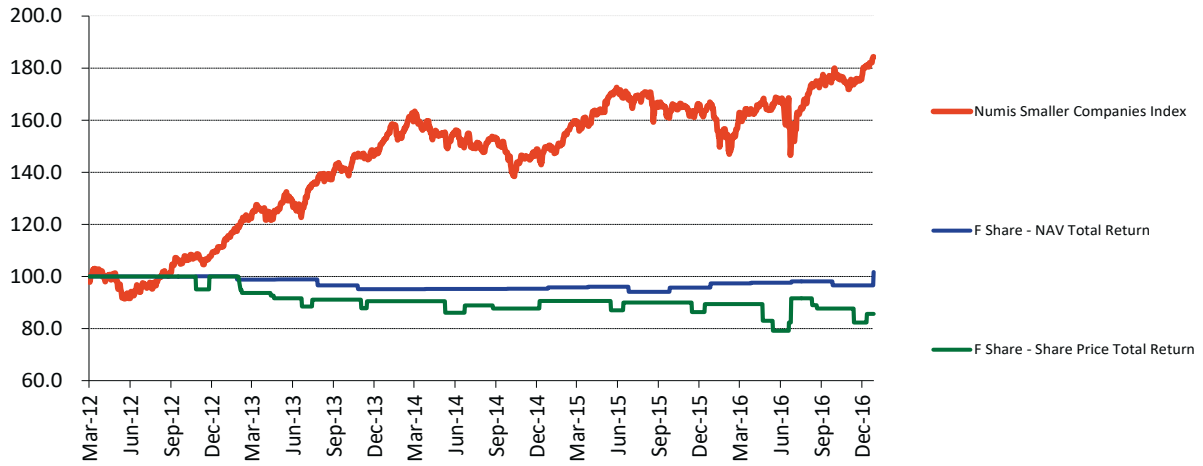
**Downing TWO VCT plc
'D' Share performance chart**



Note: The 'D' Share pool was first launched in the year ended 31 January 2010.

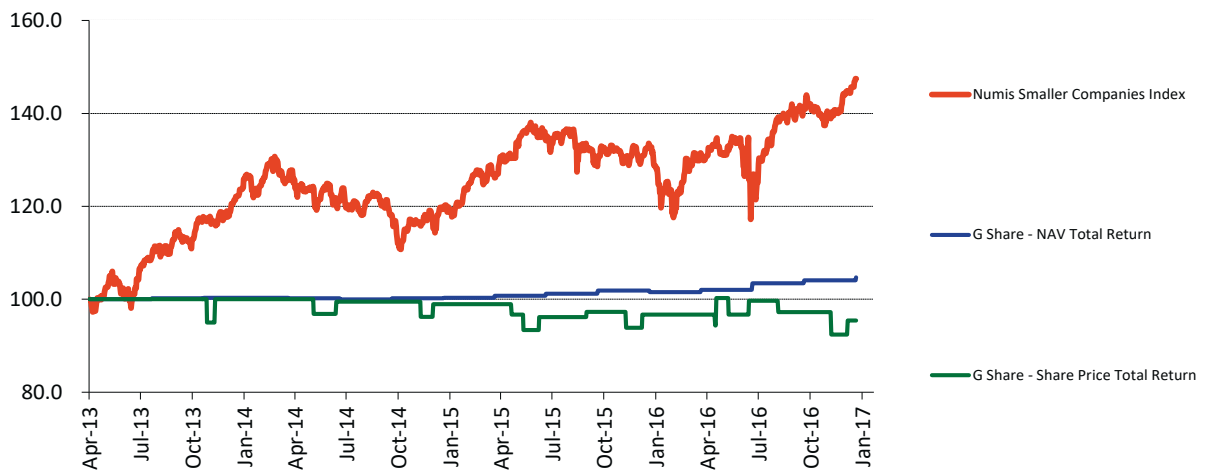
DIRECTORS' REMUNERATION REPORT (continued)

**Downing TWO VCT plc
'F' Share performance chart**



Note: The 'F' Share pool was first launched in the year ended 31 January 2012.

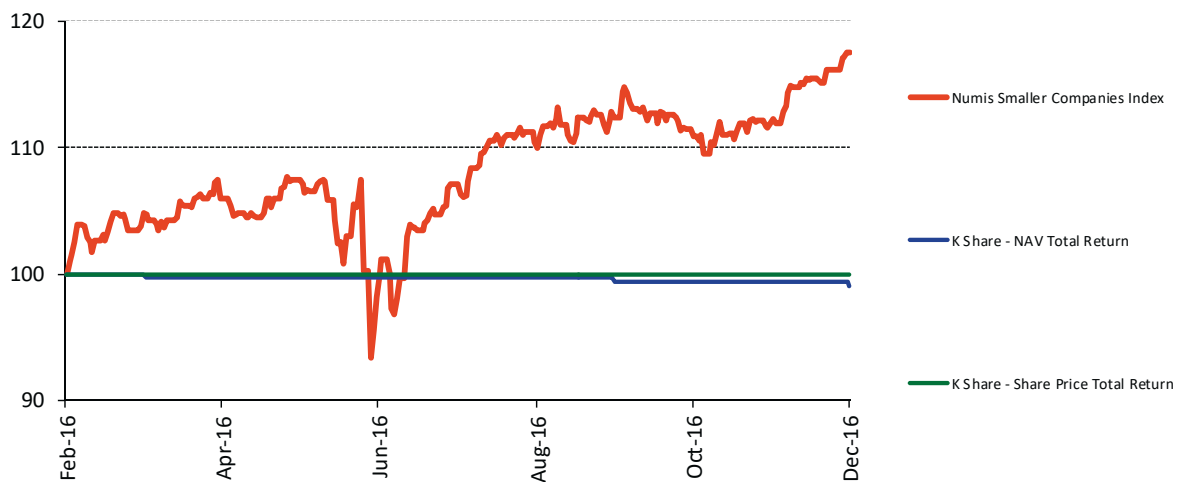
**Downing TWO VCT plc
'G' Share performance chart**



Note: The 'G' Share pool was first launched in the year ended 31 December 2013.

DIRECTORS' REMUNERATION REPORT (continued)

**Downing TWO VCT plc
'K' Share performance chart**



Note: The 'K' Share pool was first launched in the year ended 31 December 2016.

CORPORATE GOVERNANCE

The Directors support the relevant principles of the UK Corporate Governance Code issued by the Financial Reporting Council in September 2014, being the principles of good governance and the code of best practice, as set out in the annex to the Listing Rules of the UK Listing Authority.

The Board

The Company has a Board comprising three non-executive Directors. The Chairman and senior Director is Hugh Gillespie. Biographical details of the Board members (including significant other commitments of the Chairman) are shown on page 3.

In accordance with Company policy and corporate governance best practice, both Hugh Gillespie and Dennis Hale offer themselves for re-election at the next AGM.

Full Board meetings take place quarterly and additional meetings are held as required to address specific issues including considering recommendations from the Investment Manager, making all decisions concerning the acquisition or disposal of investments, and reviewing, periodically, the terms of engagement and the performance of all third party advisers (including investment managers and administrators). The Board has a formal schedule of matters specifically reserved for its decision.

The Board has also established procedures whereby Directors wishing to do so in the furtherance of their duties may take independent professional advice at the Company's expense.

All Directors have access to the advice and services of the Company Secretary. The Company Secretary provides the Board with full information on the Company's assets and liabilities and other relevant information requested by the Chairman, in advance of each Board meeting.

As the Company has a small Board of non-executive Directors, all Directors sit on all Committees. The Chairman of each Committee is Hugh Gillespie. The Audit Committee normally meets twice yearly, and the Remuneration and Nomination Committees meet as required. All Committees have defined terms of reference and duties.

The Board has authority to make market purchases of the Company's own shares. This authority for up to 14.9% of the Company's issued share capital was granted at the last AGM. A resolution will be put to Shareholders to renew this authority at the forthcoming AGM.

The capital structure of the Company is disclosed on page 41 of the Report of the Directors.

Audit Committee

The Audit Committee is responsible for:

- monitoring the Company's financial reporting;
- reviewing internal controls and risk management systems; and
- matters regarding audit and external auditors.

Financial Reporting

The Committee is responsible for reviewing, and agreeing the half-yearly and annual accounts (including those figures presented within) before they are presented to the Board for final approval.

In particular, the Committee reviews, challenges (where appropriate) and agrees the basis for the carrying value of the unquoted investments, as prepared by the Investment Manager, for presentation within the half-yearly and annual accounts.

The Committee also takes into careful consideration comments on matters regarding valuation, revenue recognition and disclosures arising from the Report to the Audit Committee as part of the finalisation process for the Annual Accounts.

Internal audit and control

The Committee has considered the need for an internal audit function and has concluded that at the present time this would not be appropriate for a company of this size and structure. The Committee seeks to satisfy themselves that there is a proper system and allocation of the responsibilities for the day-to-day monitoring of financial controls by receiving representations and information either upon request or voluntarily from the Manager. This is covered more fully under Internal Control.

Whistleblowing procedures

As the Company has no staff, other than Directors, there are no procedures in place in respect of C.3.5 of the UK Corporate Governance Code, relating to whistleblowing. The Audit Committee understands that the Manager has whistleblowing procedures in place.

External auditor

The Committee reviews and agrees the audit strategy paper, presented by the Auditor in advance of the audit, which sets out the key risk areas to be covered during the audit, confirms their status of independence and includes the proposed audit fee. The Committee confirms that the two main areas of risk for the year under review are the carrying value of investments and revenue recognition. The Committee's consideration of these matters is set out in this report.

CORPORATE GOVERNANCE (continued)

Audit Committee (continued)

External auditor (continued)

The Committee, after taking into consideration comments from the Manager, Downing LLP, regarding the effectiveness of the audit process; immediately before the conclusion of the annual audit, will recommend that the Board either re-appoint or remove the auditors.

Under the Competition and Markets Authority regulations, there is a requirement that an audit tender process be carried out every ten years and mandatory rotation at least every twenty years. Due to the current auditor's tenure, the Company is required to undertake an audit tender for the year ended 31 December 2017.

Following the Company's year end, the audit tender process took place in April 2017. Four firms were invited to tender including BDO LLP. Two formal proposals were considered and ultimately the Committee decided to re-appoint BDO, the existing auditors. The Committee is satisfied that BDO has suitable experience and resources to provide a good quality audit service and have indicated that future audit fees will be maintained at a reasonable level. A proposal for their re-appointment will be put to Shareholders at the forthcoming AGM.

Non audit services

The Committee will approve the provision of ad-hoc work and maximum expected fee before being undertaken; to ensure the Auditor objectivity and independence are safeguarded.

Board and Committee meetings

The following table sets out the Directors' attendance at the Board and Committee meetings held during the year.

	Board meetings attended (5 held)	Audit Committee meetings attended (2 held)
Hugh Gillespie	5	2
Dennis Hale	4	1
Christopher McCann	5	2

Remuneration Committee

The Committee meets as and when required to review the levels of Directors' remuneration. Details of the specific levels of remuneration due to each Director are set out in the Directors' Remuneration Report on page 45 and this is subject to Shareholder approval.

Nomination Committee

The Nomination Committee's primary function is to make recommendations to the Board on all new appointments and also to advise generally on issues relating to Board composition and balance. The Committee meets as and when appropriate.

Diversity policy

When considering a new appointment to the Board, the Committee's responsibility is to ensure that Shareholders are safeguarded by appointing the most appropriate person for the position (irrespective of gender), giving due regard to past and present experience in the sectors in which the Company invests. The Company therefore does not have a specific diversity policy in place.

Relations with Shareholders

Shareholders have the opportunity to meet the Board at the AGM. The Board is also happy to respond to any written queries made by Shareholders during the course of the year, or to meet with major Shareholders if so requested.

In addition to the formal business of the AGM, representatives of the Investment Manager and the Board are available to answer any questions a Shareholder may have.

Separate resolutions are proposed at the AGM on each substantially separate issue. The Manager collates proxy votes and the results (together with the proxy forms) are forwarded to the Company Secretary immediately prior to the AGM. In order to comply with the UK Corporate Governance Code, proxy votes are announced at the AGM, following each vote on a show of hands, except in the event of a poll being called. The notice of the next AGM and proxy form can be found at the end of these financial statements.

The terms of reference of the Committees and the conditions of appointment of non-executive Directors are available to Shareholders on request.

Financial reporting

The Directors' statement of responsibilities for preparing the accounts is set out in the Report of the Directors on page 43, and a statement by the Auditor about their reporting responsibilities is set out in the Auditor's Report on page 54.

Internal control

The Board has adopted an Internal Control Manual ("Manual") for which they are responsible, which has been compiled in order to comply with the UK Corporate Governance Code. The Manual is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, which it achieves by detailing the perceived risks and controls to mitigate them. The Board reviews the perceived risks in line with relevant guidance on an annual basis and implements additional controls as appropriate.

CORPORATE GOVERNANCE (continued)

Internal control (continued)

The Board reviews a Risk Register on an annual basis. The main aspects of internal control in relation to financial reporting by the Board are as follows:

- Review of quarterly reports from the Investment Manager on the portfolio of investments held, including additions and disposals;
- Quarterly reviews by the Board of the Company's investments, other assets and liabilities, and revenue and expenditure and detailed review of unquoted investment valuations;
- Quarterly reviews by the Board of compliance with the venture capital trust regulations to retain status, including a review of half yearly reports from Philip Hare & Associates;
- A separate review of the Annual Report and Half Yearly report by the Audit Committee prior to Board approval; and
- A review by the Board of all financial information prior to publication.

The Board is responsible for ensuring that the procedures to be followed by the advisers and themselves are in place, and they review the effectiveness of the Manual, based on the report from the Audit Committee, on an annual basis to ensure that the controls remain relevant and were in operation throughout the year.

Although the Board is ultimately responsible for safeguarding the assets of the Company, the Board has delegated, through written agreements, the day-to-day operation of the Company to Downing LLP.

Anti-bribery policy

The Company operates an anti-bribery policy to ensure that it meets its responsibilities arising from the Bribery Act 2010. This policy can be found on the website maintained by the Manager at www.downing.co.uk.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 4 to 5, the Investment Manager's Reports on pages 6, 13, 21 and 29, the Strategic Report on page 37 and the Report of the Directors on page 41. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Balance Sheet on page 62, the Cash Flow statement on page 67 and the Strategic Report on page 37. In addition, note 17 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources at the year end, and holds a diversified portfolio of investments. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully, despite the current uncertain economic outlook.

The result of the EU referendum during the year and plans for Brexit might have some significant effect on the macroeconomic environment in the medium and long term, however the Board believes the impact on the Company will be reasonably small. The majority of the funds raised in the Company are fully invested with a good pipeline in place for its remaining funds. As a result, the Board considers any impact to be small, however will of course continue to monitor developments.

The Directors confirm that they are satisfied that the Company has adequate resources to continue in business for at least twelve months from the date of approval of these financial statements. For this reason, they believe that the Company continues to be a going concern and that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

Compliance statement

The Listing Rules require the Board to report on compliance with the UK Corporate Governance Code provisions throughout the accounting year. With the exception of the limited items outlined below, the Company has complied throughout the accounting year ended 31 December 2016 with the provisions set out in the UK Corporate Governance Code issued in September 2014.

- a) New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. In addition, the Company has no major Shareholders, so Shareholders are not given the opportunity to meet any new non-executive Directors at a specific meeting other than the Annual General Meeting. (B.4.1, B.4.2, E.1.1)
- b) Due to the size of the Board and nature of the Company's business, a formal performance evaluation of the Board, its Committees, the individual Directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise. Similarly, a senior independent director has not been appointed. (A.4.1, A.4.2, B.6.1, B.6.3, B.7.2)

CORPORATE GOVERNANCE (continued)

Compliance statement (continued)

- c) Non-executive Directors have consultancy agreements, whereas the recommendation is for fixed term renewable contracts. In the Directors' opinion, this does not make a substantive difference to the circumstances of the Company. (B.2.3)
- d) As the Company has had no staff, other than Directors, there are no procedures in place relating to whistleblowing. (C.3.4)



Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London
SW1P 2AL

26 April 2017

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF DOWNING TWO VCT PLC

Our opinion on the financial statements

In our opinion Downing TWO VCT plc’s financial statements for the year ended 31 December 2016, which have been prepared by the directors in accordance with applicable law and International Financial Reporting Standards (“IFRSs”) as adopted by the European Union:

- give a true and fair view of the state of the company’s affairs as at 31 December 2016 and its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

What our opinion covers

Our audit opinion on the financial statements covers the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes.

Respective responsibilities of directors and auditor

As explained more fully in the directors’ responsibility statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council’s (FRC’s) Ethical Standards for Auditors.

A description of the scope of an audit of financial statements is provided on the FRC’s website at www.frc.org.uk/auditscopeukprivate.

An overview of the scope of the audit including our assessment of the risk of material misstatement

Our audit approach was developed by obtaining an understanding of the company’s activities, the key functions undertaken on behalf of the Board by the Investment Adviser and the overall control environment. Based on this understanding we assessed those aspects of the company’s transactions and balances which were most likely to give rise to a material misstatement. Below are those risks which we considered to have the greatest effect on the overall audit strategy including the allocation of resources in the audit, and our audit response:

Valuation of investments

The valuation of investments is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Adviser, who is remunerated based on the net asset value of the company. In addition, there is a high level of estimation uncertainty involved in determining the unquoted investment valuations.

We performed initial analytical procedures to determine the extent of our work considering, inter alia, the value of individual investments, the nature of the investment and the extent of the fair value movement. A breakdown of the investment portfolio by nature of instrument and valuation method is shown below.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING TWO VCT PLC (continued)

In respect of unquoted investments our sample for testing was stratified according to risk, having regard to the subjectivity of the inputs to the valuations. 48% of the portfolio is based on price of recent investment or cost, reviewed for impairment. For such investments, we verified the cost or price of recent investment to supporting documentation and reviewed the Investment Adviser's determination of whether there were any reasons why the valuation did not remain appropriate, including obtaining evidence of the cash balance where appropriate.

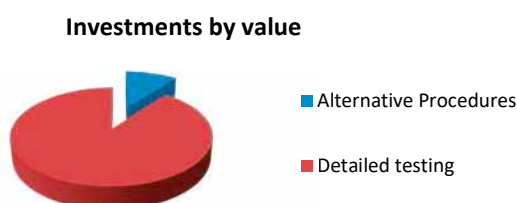
52% of the unquoted investment portfolio is valued in accordance with more subjective techniques, mainly on an earnings multiple basis, as described in note 7. In respect of the sample selected for detailed testing (representing 90% by value of the investments valued using more subjective techniques) we:

- Recalculated the value attributable to the company;
- Reviewed and challenged the inputs to the valuation and assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements;
- Reviewed the historical financial statements and recent management information available for unquoted investments used to support assumptions about maintainable earnings used in the valuations;
- Considered the earnings multiples applied by reference to observable listed company market data; and
- Challenged adjustments made to such market data in establishing the earnings multiple applied in arriving at the valuations adopted.

Where appropriate, we performed a sensitivity analysis by developing our own point estimate where we considered that alternative input assumptions could reasonably have been applied and we considered the overall impact of such sensitivities on the portfolio of investments in determining whether the valuations as a whole are reasonable and free from bias.

The remainder of the portfolio was subject to alternative procedures to confirm there were no unexpected movements in value warranting further investigation. This involved a review of whether the valuation was approved by the Investment Committee and Board, as well as if the valuation was using a valid IPEV methodology.

The extent of our testing is detailed below:



Revenue recognition

Revenue consists primarily of interest earned on loans to investee companies. Revenue recognition is considered to be a significant audit risk as it is one of the key drivers of dividend returns to investors.

We developed expectations for interest income receivable based on loan instruments and investigated any variations in amounts recognised to ensure they were valid. We traced a sample of interest income receipts to bank.

We considered whether the accounting policy had been applied correctly by management in determining provisions against income where recovery is considered doubtful, considering management information relevant to the ability of the investee company to service the loan and the reasons for any arrears of loan interest. We considered the appropriateness of the accounting treatment of other fixed returns, including redemption premia.

We considered the completeness of dividend income receivable by reviewing management information for a sample of unquoted investments.

The audit committee's consideration of their key issues is set out on pages 51.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING TWO VCT PLC (continued)

Materiality in context

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements. The application of these key considerations gives rise to two levels of materiality, the quantum and purpose of which are tabulated below.

Materiality measure	Purpose	Key considerations and benchmarks	Quantum (£)
Financial statement materiality (2% value of investments)-	Assessing whether the financial statements as a whole present a true and fair view	<ul style="list-style-type: none">• The value of investments• The level of judgement inherent in the valuation• The range of reasonable alternative valuation	800,000
Specific materiality – classes of transactions and balances which impact on revenue profits (10% revenue return before tax)	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	<ul style="list-style-type: none">• The level of net income return	60,000

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £9,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion: based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Statement regarding the directors' assessment of principal risks, going concern and longer term viability of the company

We have nothing material to add or to draw attention to in relation to:

- the directors' confirmation on page 38 of the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity,
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated,
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements, and
- the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING TWO VCT PLC (continued)

Matters on which we are required to report by exception

<p>Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Report and Accounts is:</p> <ul style="list-style-type: none"> • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or • is otherwise misleading. <p>In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Report and Accounts is fair, balanced and understandable and whether the Report and Accounts appropriately discloses those matters that we communicated to the Audit committee which we consider should have been disclosed.</p>	<p>We have nothing to report in respect of these matters.</p>
<p>In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.</p>	<p>We have nothing to report in respect of these matters.</p>
<p>Under the Companies Act 2006 we are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or • the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit 	<p>We have nothing to report in respect of these matters.</p>
<p>Under the Listing Rules we are required to review the part of the Corporate Governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for review by the auditor in accordance with Listing Rule 9.8.10 R(2). The Listing Rules also require that we review the directors' statements set out on pages 38 regarding going concern and longer term viability.</p>	<p>We have nothing to report in respect of these matters.</p>

BDO LLP

Vanessa-Jayne Bradley (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

London

United Kingdom

26 April 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

INCOME STATEMENT

for the year ended 31 December 2016

	Note	Year ended 31 December 2016			Year ended 31 December 2015		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	3	1,006	40	1,046	2,663	-	2,663
Gain on investments	10	-	1,085	1,085	-	41	41
		<u>1,006</u>	<u>1,125</u>	<u>2,131</u>	<u>2,663</u>	<u>41</u>	<u>2,704</u>
Investment management fees	4	(861)	-	(861)	(753)	-	(753)
Other expenses	5	<u>(308)</u>	<u>-</u>	<u>(308)</u>	<u>(251)</u>	<u>-</u>	<u>(251)</u>
(Loss)/return on ordinary activities before tax		(163)	1,125	962	1,659	41	1,700
Tax on total comprehensive income and ordinary activities	7	<u>(117)</u>	<u>-</u>	<u>(117)</u>	<u>(201)</u>	<u>-</u>	<u>(201)</u>
(Loss)/return for the year and total comprehensive income		<u>(280)</u>	<u>1,125</u>	<u>845</u>	<u>1,458</u>	<u>41</u>	<u>1,499</u>
Basic and diluted return/(loss) per:							
'C' Share	9	(0.4p)	-	(0.4p)	9.6p	(4.4p)	5.2p
'A' Share	9	-	-	-	-	-	-
'D' Share	9	(0.6p)	2.3p	1.7p	3.4p	3.8p	7.2p
'E' Share	9	-	-	-	-	-	-
'F' Share	9	(1.0p)	3.8p	2.8p	1.6p	(0.5p)	1.1p
'G' Share	9	0.3p	1.9p	2.2p	1.0p	0.1p	1.1p
'K' Share	9	(1.4p)	-	(1.4p)	-	-	-

All Revenue and Capital items in the above statement are derived from continuing operations. No operations were acquired or discontinued during the year. The total column within the Income Statement represents the Statement of Total Comprehensive Income of the Company prepared in accordance with Financial Reporting Standards ("FRS 102"). The supplementary revenue and capital return columns are prepared in accordance with the Statement of Recommended Practice issued in November 2014 by the Association of Investment Companies ("AIC SORP").

Other than revaluation movements arising on investments held at fair value through the profit and loss, there were no differences between the return/loss as stated above and historical cost.

The accompanying notes form an integral part of these financial statements.

INCOME STATEMENT (ANALYSED BY SHARE POOL)

for the year ended 31 December 2016

'C' Share pool

	Note	Year ended 31 December 2016			Year ended 31 December 2015		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		7	-	7	818	-	818
Loss on investments		-	-	-	-	(315)	(315)
		7	-	7	818	(315)	503
Investment management fees		(9)	-	(9)	(57)	-	(57)
Other expenses		(33)	-	(33)	(35)	-	(35)
(Loss)/return on ordinary activities before tax		(35)	-	(35)	726	(315)	411
Tax on total comprehensive income and ordinary activities		6	-	6	(39)	-	(39)
(Loss)/return attributable to equity shareholders	9	(29)	-	(29)	687	(315)	372

'D' Share pool

	Note	Year ended 31 December 2016			Year ended 31 December 2015		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		50	40	90	560	-	560
Gain on investments		-	194	194	-	384	384
		50	234	284	560	384	944
Investment management fees		(50)	-	(50)	(97)	-	(97)
Other expenses		(34)	-	(34)	(44)	-	(44)
(Loss)/return on ordinary activities before tax		(34)	234	200	419	384	803
Tax on total comprehensive income and ordinary activities		(24)	-	(24)	(80)	-	(80)
(Loss)/return attributable to equity shareholders	9	(58)	234	176	339	384	723

The accompanying notes form an integral part of these financial statements.

INCOME STATEMENT (ANALYSED BY SHARE POOL) (continued)
for the year ended 31 December 2016

'F' Share pool

	Note	Year ended 31 December 2016			Year ended 31 December 2015		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		98	-	98	409	-	409
Gain/(loss) on investments		-	415	415	-	(57)	(57)
		98	415	513	409	(57)	352
Investment management fees		(138)	-	(138)	(144)	-	(144)
Other expenses		(78)	-	(78)	(74)	-	(74)
(Loss)/return on ordinary activities before tax		(118)	415	297	191	(57)	134
Tax on total comprehensive income and ordinary activities		5	-	5	(16)	-	(16)
(Loss)/return attributable to equity shareholders	9	(113)	415	302	175	(57)	118

'G' Share pool

	Note	Year ended 31 December 2016			Year ended 31 December 2015		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		780	-	780	876	-	876
Gain on investments		-	476	476	-	29	29
		780	476	1,256	876	29	905
Investment management fees		(436)	-	(436)	(455)	-	(455)
Other expenses		(127)	-	(127)	(98)	-	(98)
Return on ordinary activities before tax		217	476	693	323	29	352
Tax on total comprehensive income and ordinary activities		(143)	-	(143)	(66)	-	(66)
Return attributable to equity shareholders	9	74	476	550	257	29	286

The accompanying notes form an integral part of these financial statements.

INCOME STATEMENT (ANALYSED BY SHARE POOL) (continued)
for the year ended 31 December 2016

'K' Share pool

	Year ended 31 December 2016			Year ended 31 December 2015			
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income		71	-	71	-	-	-
Return on investments		-	-	-	-	-	-
		71	-	71	-	-	-
Investment management fees		(228)	-	(228)	-	-	-
Other expenses		(36)	-	(36)	-	-	-
Loss on ordinary activities before tax		(193)	-	(193)	-	-	-
Tax on total comprehensive income and ordinary activities		39	-	39	-	-	-
Loss attributable to equity shareholders	9	(154)	-	(154)	-	-	-

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET
as at 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Investments	10	39,670	31,365
Current assets			
Debtors	11	312	879
Cash at bank and in hand		8,461	7,021
		<u>8,773</u>	<u>7,900</u>
Creditors: amounts falling due within one year	12	<u>(486)</u>	<u>(532)</u>
Net current assets		<u>8,287</u>	<u>7,368</u>
Net assets		<u><u>47,957</u></u>	<u><u>38,733</u></u>
Capital and reserves			
Called up share capital	13	95	79
Capital redemption reserve	14	106	106
Special reserve	14	33,666	40,086
Share premium reserve	14	16,170	-
Revaluation reserve	14	(115)	(1,248)
Capital reserve – realised	14	(2,254)	(2,252)
Revenue reserve	14	<u>289</u>	<u>1,962</u>
Total equity shareholders' funds	15	<u>47,957</u>	<u>38,733</u>
Basic and diluted net asset value per Share:			
'C' Share	15	-	53.9p
'A' Share	15	-	0.1p
'D' Share	15	36.6p	51.8p
'E' Share	15	0.1p	0.1p
'F' Share	15	69.7p	71.9p
'G' Share	15	83.5p	86.3p
'K' Share	15	99.0p	-

The financial statements on pages 58 to 88 were approved and authorised for issue by the Board of Directors on 26 April 2017 and were signed on its behalf by:



Hugh Gillespie
Chairman
Company number: 5334418

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET (ANALYSED BY SHARE POOL)
as at 31 December 2016

'C' Shares

		2016	2015
		£000	£000
Fixed assets			
Investments		-	748
Current assets			
Debtors		-	175
Cash at bank and in hand		24	2,995
		<u>24</u>	<u>3,170</u>
Creditors: amounts falling due within one year		<u>(23)</u>	<u>(75)</u>
Net current assets		<u>1</u>	<u>3,095</u>
Net assets		<u><u>1</u></u>	<u><u>3,843</u></u>
Capital and reserves			
Called up share capital	13	18	18
Capital redemption reserve		106	106
Special reserve		-	2,743
Share premium reserve		-	-
Revaluation reserve		(105)	55
Capital reserve – realised		-	-
Revenue reserve		<u>(18)</u>	<u>921</u>
Total equity shareholders' funds	15	<u><u>1</u></u>	<u><u>3,843</u></u>

'D' Shares

		2016	2015
		£000	£000
Fixed assets			
Investments		2,382	4,369
Current assets			
Debtors		3	283
Cash at bank and in hand		1,345	667
		<u>1,348</u>	<u>950</u>
Creditors: amounts falling due within one year		<u>(68)</u>	<u>(133)</u>
Net current assets		<u>1,280</u>	<u>817</u>
Net assets		<u><u>3,662</u></u>	<u><u>5,186</u></u>
Capital and reserves			
Called up share capital	13	25	25
Capital redemption reserve		-	-
Special reserve		3,579	5,205
Share premium reserve		-	-
Revaluation reserve		(508)	(667)
Capital reserve – realised		-	-
Revenue reserve		<u>566</u>	<u>623</u>
Total equity shareholders' funds	15	<u><u>3,662</u></u>	<u><u>5,186</u></u>

BALANCE SHEET (ANALYSED BY SHARE POOL) (continued)
as at 31 December 2016

'F' Shares

		2016	2015
		£000	£000
Fixed assets			
Investments		7,207	7,379
Current assets			
Debtors		25	131
Cash at bank and in hand		377	392
		<u>402</u>	<u>523</u>
Creditors: amounts falling due within one year		<u>(71)</u>	<u>(119)</u>
Net current assets		<u>331</u>	<u>404</u>
Net assets		<u><u>7,538</u></u>	<u><u>7,783</u></u>
Capital and reserves			
Called up share capital	13	11	11
Capital redemption reserve		-	-
Special reserve		8,380	9,158
Share premium reserve		-	-
Revaluation reserve		6	(647)
Capital reserve – realised		(1,032)	(1,032)
Revenue reserve		173	293
Total equity shareholders' funds	15	<u><u>7,538</u></u>	<u><u>7,783</u></u>

'G' Shares

		2016	2015
		£000	£000
Fixed assets			
Investments		20,181	18,869
Current assets			
Debtors		282	290
Cash at bank and in hand		964	2,967
		<u>1,246</u>	<u>3,257</u>
Creditors: amounts falling due within one year		<u>(257)</u>	<u>(205)</u>
Net current assets		<u>989</u>	<u>3,052</u>
Net assets		<u><u>21,170</u></u>	<u><u>21,921</u></u>
Capital and reserves			
Called up share capital	13	25	25
Capital redemption reserve		-	-
Special reserve		21,707	22,980
Share premium reserve		-	-
Revaluation reserve		492	11
Capital reserve – realised		(1,222)	(1,220)
Revenue reserve		168	125
Total equity shareholders' funds	15	<u><u>21,170</u></u>	<u><u>21,921</u></u>

BALANCE SHEET (ANALYSED BY SHARE POOL) (continued)
as at 31 December 2016

'K' Shares

	2016	2015
	£000	£000
Fixed assets		
Investments	9,900	-
Current assets		
Debtors	2	-
Cash at bank and in hand	5,751	-
	<u>5,753</u>	<u>-</u>
Creditors: amounts falling due within one year	(67)	-
Net current assets	<u>5,686</u>	<u>-</u>
Net assets	<u><u>15,586</u></u>	<u><u>-</u></u>
Capital and reserves		
Called up share capital	13 16	-
Share premium reserve	16,170	-
Revenue reserve	(600)	-
Total equity shareholders' funds	15 <u><u>15,586</u></u>	<u><u>-</u></u>

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Called up share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Share premium reserve £'000	Revaluation reserve £'000	Capital reserve - realised £'000	Revenue reserve £'000	Total £'000
At 1 January 2015	79	106	47,161	-	(289)	(2,255)	548	45,350
Total comprehensive income	-	-	-	-	(8)	49	1,458	1,499
<i>Transactions with owners</i>								
Purchase of own shares	-	-	-	-	-	-	(44)	(44)
Transfers between reserves	-	-	(7,075)	-	(951)	8,026	-	-
Dividend paid	-	-	-	-	-	(8,072)	-	(8,072)
At 31 December 2015	79	106	40,086	-	(1,248)	(2,252)	1,962	38,733
Total comprehensive income	-	-	-	-	908	217	(280)	845
<i>Transaction with owners</i>								
Issue of new shares	16	-	-	16,170	-	-	-	16,186
Share issue costs	-	-	-	-	-	-	(448)	(448)
Transfers between reserves	-	-	(6,420)	-	225	7,104	(909)	-
Purchase of own shares	-	-	-	-	-	-	(36)	(36)
Dividend paid	-	-	-	-	-	(7,323)	-	(7,323)
At 31 December 2016	95	106	33,666	16,170	(115)	(2,254)	289	47,957

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2016

		Year ended 31 December 2016						
		'C'	'D'	'F'	'G'	'K'		
		Share	Share	Share	Share	Share	Total	
		pool	pool	pool	pool	pool		
Note		£'000	£'000	£'000	£'000	£'000	£'000	
	Net cash inflow/(outflow) from operating activities	16	95	196	(54)	131	(87)	281
	Cash flows from investing activities							
	Purchase of investments	10	-	-	(700)	(6,480)	(9,900)	(17,080)
	Sale of investments	10	748	2,182	1,287	5,643	-	9,860
	Net cash inflow/(outflow) from investing activities		748	2,182	587	(837)	(9,900)	(7,220)
	Net cash inflow/(outflow) before financing activities		843	2,378	533	(706)	(9,987)	(6,939)
	Cash flows from financing activities							
	Equity dividends paid	8	(3,814)	(1,700)	(540)	(1,269)	-	(7,323)
	Purchase of own shares		-	-	(8)	(28)	-	(36)
	Proceeds from share issue		-	-	-	-	16,186	16,186
	Share issue costs		-	-	-	-	(448)	(448)
	Net cash (outflow)/inflow from financing activities		(3,814)	(1,700)	(548)	(1,297)	15,738	8,379
	(Decrease)/increase in cash		(2,971)	678	(15)	(2,003)	5,751	1,440
	Cash and cash equivalents at start of year		2,995	667	392	2,967	-	7,021
	Cash and cash equivalents at end of year		24	1,345	377	964	5,751	8,461
	Cash and cash equivalents comprise							
	Cash at bank and in hand		24	1,345	377	964	5,751	8,641
	Total cash and cash equivalents		24	1,345	377	964	5,751	8,461

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT (continued)
for the year ended 31 December 2016

	Note	Year ended 31 December 2015				Total £'000
		'C' Share pool £'000	'D' Share pool £'000	'F' Share pool £'000	'G' Share pool £'000	
Net cash inflow from operating activities	16	530	154	171	323	1,178
Cash flows from investing activities						
Purchase of investments	10	(158)	(417)	(1,725)	(11,743)	(14,043)
Sale of investments	10	5,671	3,550	1,665	7,069	17,955
Net cash inflow/(outflow) from investing activities		5,513	3,133	(60)	(4,674)	3,912
Net cash inflow/(outflow) before financing activities		6,043	3,287	111	(4,351)	5,090
Cash flows from financing activities						
Equity dividends paid	8	(3,562)	(2,700)	(540)	(1,270)	(8,072)
Purchase of own shares		-	-	-	(44)	(44)
Net cash outflow from financing activities		(3,562)	(2,700)	(540)	(1,314)	(8,116)
Increase/(decrease) in cash		2,481	587	(429)	(5,665)	(3,026)
Cash and cash equivalents at start of year		514	80	821	8,632	10,047
Cash and cash equivalents at end of year		2,995	667	392	2,967	7,021
Cash and cash equivalents comprise						
Cash at bank and in hand		2,995	667	392	2,967	7,021
Total cash and cash equivalents		2,995	667	392	2,967	7,021

The accompanying notes form an integral part of these financial statements.

NOTES TO THE ACCOUNTS

for the year ended 31 December 2016

1. General information

Downing TWO VCT plc (“the Company”) is a venture capital trust established under the legislation introduced in the Finance Act 1995 and is domiciled in the United Kingdom and incorporated in England and Wales, and its registered office is Ergon House, Horseferry Road, London SW1P 2AL.

2. Accounting policies

Basis of accounting

The Company has prepared its financial statements under FRS 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ and in accordance with the Statement of Recommended Practice (“SORP”) for investment trust companies and venture capital trusts issued by the Association of Investment Companies (“AIC”) revised November 2014 as well as the Companies Act 2006.

The Company implements new Financial Reporting Standards (“FRS”) issued by the Financial Reporting Council when required.

The financial statements are presented in Sterling (£).

Presentation of Income Statement

In order to better reflect the activities of a venture capital trust and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The return on ordinary activities is the measure the Directors believe appropriate in assessing the Company’s compliance with certain requirements set out in Part 6 of the Income Tax Act 2007.

Investments

Venture capital investments are designated as “fair value through profit or loss” assets due to investments being managed and performance evaluated on a fair value basis. A financial asset is designated within this category if it is both acquired and managed on a fair value basis, with a view to selling after a period of time, in accordance with the Company’s documented investment policy. The fair value of an investment upon acquisition is deemed to be cost. Thereafter investments are measured at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines (“IPEV”) together with FRS 102 sections 11 and 12.

For unquoted investments, fair value is established using the IPEV guidelines. The valuation methodologies for unquoted entities used by the IPEV to ascertain the fair value of an investment are as follows:

- Price of recent investment;
- Multiples;
- Net assets;
- Discounted cash flows or earnings (of underlying business);
- Discounted cash flows (from the investment); and
- Industry valuation benchmarks.

The methodology applied takes account of the nature, facts and circumstances of the individual investment and uses reasonable data, market inputs, assumptions and estimates in order to ascertain fair value.

Gains and losses arising from changes in fair value are included in the Income Statement for the year as a capital item and transaction costs on acquisition or disposal of the investment are expensed. Where an investee company has gone into receivership, liquidation or administration (where there is little likelihood of recovery), the loss on the investment, although not physically disposed of, is treated as being realised.

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 December 2016

2. Accounting policies (continued)

Investments (continued)

It is not the Company's policy to exercise significant influence over investee companies. Therefore, the results of these companies are not incorporated into the Income Statement except to the extent of any income accrued. This is in accordance with the SORP and FRS 102 sections 14 and 15 that does not require portfolio investments, where the interest held is greater than 20%, to be accounted for using the equity method of accounting.

Income

Dividend income from investments is recognised when the Shareholders' rights to receive payment has been established, normally the ex-dividend date.

Interest income is accrued on a time apportionment basis, by reference to the principal sum outstanding and at the effective rate applicable and only where there is reasonable certainty of collection in the foreseeable future.

Distributions from investments in limited liability partnerships ("LLPs") are recognised as they are paid to the Company. Where such items are considered capital in nature they are recognised as capital profits.

Expenses

All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Income Statement, all expenses have been presented as revenue items except as follows:

- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. The Company has adopted the policy of allocating Investment Manager's fees 100% as revenue.
- Expenses and liabilities not specific to a share class are generally allocated pro rata to the net assets.
- Performance incentive fees arising from the disposal of investments are deducted as a capital item.

Taxation

The tax effects on different items in the Income Statement are allocated between capital and revenue on the same basis as the particular item to which they relate using the Company's effective rate of tax for the accounting year.

Due to the Company's status as a Venture Capital Trust and the continued intention to meet the conditions required to comply with Part 6 of the Income Tax Act 2007, no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments which arise.

Deferred taxation which is not discounted is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in years different from those in which they are included in the financial statements. Deferred taxation is not discounted.

Other debtors and other creditors

Other debtors (including accrued income) and other creditors are included within the accounts at amortised cost.

Issue costs

Issue costs in relation to the shares issued for each share class have been deducted from the revenue reserve account for the relevant share class.

Significant estimates and judgements

Disclosure is required of judgements and estimates made by management in applying the accounting policies that have a significant effect on the financial statements. The area involving a higher degree of judgement and estimates is the valuation of unquoted investments as explained in the investment accounting policy above and addressed further in note 10.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

3. Income

	Revenue Total £'000	Capital Total £'000	2016 Total £'000	2015 Total £'000
Income from investments				
Loan stock interest	863	-	863	1,952
Dividend income	-	-	-	570
LLP income	-	40	40	-
	<u>863</u>	<u>40</u>	<u>903</u>	<u>2,522</u>
Other income				
Bank interest	27	-	27	76
Fee income	116	-	116	65
	<u>1,006</u>	<u>40</u>	<u>1,046</u>	<u>2,663</u>

4. Investment management fees

Downing LLP ("DLLP"), provides management services in respect of the portfolio of venture capital investments. The management fee, which is charged to the Company, is based on an annual amount of 1.35% of the 'C' and 'D' share pool net assets, 1.8% of the 'F' share pool net assets and 2.0% of the 'G' and 'K' share pool net assets. The Manager also provides administration services for a fee of £60,000 (plus RPI) per annum. Fees in relation to these services are shown within note 5.

Members of the management team are entitled to a performance fee which is detailed further within note 13. On 24 March 2016, final dividends were paid for the 'C' Share and 'A' Share classes. The effective performance incentive fee paid to members of the management team was £544,000. The performance fee has been wholly attributed to capital. As the targets for all other pools have not been met, no other fee is due to be paid for the year ended 31 December 2016.

	2016 £'000	2015 £'000
Investment management fees	<u>861</u>	<u>753</u>

5. Other expenses

	2016 £'000	2015 £'000
Administration services	60	58
Trail commission	47	61
Directors' remuneration	58	44
Social security costs	1	1
Auditor's remuneration for audit	22	20
Auditor's remuneration for non-audit services (taxation)	3	3
Other	117	64
	<u>308</u>	<u>251</u>

The 'C' and 'D' Share pool annual running costs of the Company, for the year, are subject to a cap of 2.9% of the net asset value of each respective share pool. The 'F' and 'G' Share pools are subject to an annual running costs cap of 3.5% each and the 'K' Share pool is subject to an annual running costs cap of 3.0%.

6. Directors' remuneration

The Directors of the Company are considered to be the only key management personnel. Details of remuneration (excluding employer's NIC) are given in the Directors' Remuneration Report on page 45. The Company had no employees (other than Directors) during the year. Costs in respect of these are referred to in note 5 above.

No other emoluments or pension contributions were paid by the Company to, or on behalf of, any Director.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

7. Tax on ordinary activities

	2016	2015
	£'000	£'000
(a) Tax charge for year		
UK corporation tax	117	201
Charge for the year	<u>117</u>	<u>201</u>
(b) Factors affecting tax charge for the year		
Return on ordinary activities before taxation	<u>962</u>	<u>1,700</u>
Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 20.0% (Year ended 31 Dec 2015: 20.2%)	192	344
Effects of:		
Gain on investments	(217)	(8)
LLP income	149	-
Expenses disallowed for tax purposes	5	-
Adjustment in respect of prior year	(12)	(20)
Dividend income	-	(115)
	<u>117</u>	<u>201</u>

8. Dividends

	Year ended 31 December 2016			Year ended 31 December 2015		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Paid by 'C' Share pool						
Special 'C' 2016 – 30.6p	-	2,182	2,182	-	-	-
Special 'A' 2016 – 15.2p	-	1,632	1,632	-	-	-
Y/e Dec 2014 Final – 50.0p	-	-	-	-	3,562	3,562
	<u>-</u>	<u>3,814</u>	<u>3,814</u>	<u>-</u>	<u>3,562</u>	<u>3,562</u>
Paid by 'D' Share pool						
Y/e Dec 2015 Final – 17.0p	-	1,700	1,700	-	-	-
Y/e Dec 2014 Final – 27.0p	-	-	-	-	2,700	2,700
	<u>-</u>	<u>1,700</u>	<u>1,700</u>	<u>-</u>	<u>2,700</u>	<u>2,700</u>
Paid post year end by 'D' Share pool						
Y/e Dec 2016 Final – 13.5p	-	1,350	1,350	-	-	-
Y/e Dec 2015 Final – 17.0p	-	-	-	-	1,700	1,700
	<u>-</u>	<u>1,350</u>	<u>1,350</u>	<u>-</u>	<u>1,700</u>	<u>1,700</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

8. Dividends (continued)

	Year ended 31 December 2016			Year ended 31 December 2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid by 'F' Share pool						
Y/e Dec 2015 Final – 2.5p	-	270	270	-	-	-
Y/e Dec 2015 Interim – 2.5p	-	270	270	-	-	-
Y/e Dec 2014 Final – 2.5p	-	-	-	-	270	270
Y/e Dec 2014 Interim – 2.5p	-	-	-	-	270	270
	<u>-</u>	<u>540</u>	<u>540</u>	<u>-</u>	<u>540</u>	<u>540</u>
Proposed by 'F' Share pool						
Y/e Dec 2016 Final – 2.5p	-	271	271	-	-	-
Y/e Dec 2015 Final – 2.5p	-	-	-	-	271	271
	<u>-</u>	<u>271</u>	<u>271</u>	<u>-</u>	<u>271</u>	<u>271</u>
Paid by 'G' Share pool						
Y/e Dec 2015 Final – 2.5p	-	634	634	-	-	-
Y/e Dec 2015 Interim – 2.5p	-	635	635	-	-	-
Y/e Dec 2014 Final – 2.5p	-	-	-	-	635	635
Y/e Dec 2014 Interim – 2.5p	-	-	-	-	635	635
	<u>-</u>	<u>1,269</u>	<u>1,269</u>	<u>-</u>	<u>1,270</u>	<u>1,270</u>
Proposed by 'G' Share pool						
Y/e Dec 2016 Final – 2.5p	-	634	634	-	-	-
Y/e Dec 2015 Final – 2.5p	-	-	-	-	635	635
	<u>-</u>	<u>634</u>	<u>634</u>	<u>-</u>	<u>635</u>	<u>635</u>

9. Basic and diluted return per share

	'C' Shares	'A' Shares	'D' Shares	'E' Shares	'F' Shares	'G' Shares	'K' Shares
Revenue return (£'000)	<u>(29)</u>	<u>-</u>	<u>(58)</u>	<u>-</u>	<u>(113)</u>	<u>74</u>	<u>(154)</u>
Net capital return for the year (£'000)	<u>-</u>	<u>-</u>	<u>234</u>	<u>-</u>	<u>415</u>	<u>476</u>	<u>-</u>
Total (loss)/return after taxation (£'000)	<u>(29)</u>	<u>-</u>	<u>176</u>	<u>-</u>	<u>302</u>	<u>550</u>	<u>(154)</u>
Weighted average number of shares in issue	<u>7,126,194</u>	<u>10,724,029</u>	<u>10,000,000</u>	<u>14,950,000</u>	<u>10,816,537</u>	<u>25,369,651</u>	<u>10,667,839</u>

As the Company has not issued any convertible securities or share options, there is no dilutive effect on return per share for any of the share classes. The return per share disclosed therefore represents both the basic and diluted return per share for all share classes.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

10. Investments - "Fair value through profit or loss" assets

	Unquoted investments £'000
Cost at 31 December 2015	32,613
Unrealised losses at 31 December 2015	(1,248)
Valuation at 31 December 2015	<u>31,365</u>
Movement in the year:	
Purchased at cost	17,080
Sale - proceeds	(9,860)
- realised gains on sales	177
Unrealised gains in the income statement	908
Valuation at 31 December 2016	<u><u>39,670</u></u>
Cost at 31 December 2016	39,784
Unrealised losses at 31 December 2016	(114)
Valuation at 31 December 2016	<u><u>39,670</u></u>

No costs incidental to the acquisitions of investments were incurred during the year.

The Company has categorised its fair value through profit or loss financial instruments using the fair value hierarchy as follows:

- Level a Reflects financial instruments quoted in an active market;
Level b Reflects financial instruments that have prices that are observable either directly or indirectly; and
Level c i) Reflects financial instruments that use valuation techniques that are based on observable market data.
ii) Reflects financial instruments that use valuation techniques that are not based on observable market data (unquoted equity investments and loan note investments).

	Level a £'000	Level b £'000	Level c (ii) £'000	2016 £'000	Level a £'000	Level b £'000	Level c (ii) £'000	2015 £'000
Loan notes	-	-	9,943	9,943	-	-	15,394	15,394
Unquoted equity	-	-	29,727	29,727	-	-	15,971	15,971
	<u>-</u>	<u>-</u>	<u>39,670</u>	<u>39,670</u>	<u>-</u>	<u>-</u>	<u>31,365</u>	<u>31,365</u>

Reconciliation of fair value for Level c (ii) financial instruments held at the year end:

	Loan notes £'000	Unquoted equity £'000	Total £'000
Balance at 1 January 2016	15,394	15,971	31,365
Movements in the Income Statement:			
Unrealised gains in the Income Statement	5	903	908
Realised gains/(losses) in the Income Statement	1,157	(980)	177
	<u>16,556</u>	<u>15,894</u>	<u>32,450</u>
Purchases at cost	1,269	15,811	17,080
Sales proceeds	(7,882)	(1,978)	(9,860)
Balance at 31 December 2016	<u>9,943</u>	<u>29,727</u>	<u>39,670</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

10. Investments (continued)

Changing one or more of the inputs to reasonable possible alternative valuation assumptions could result in a significant change in the fair value of the Level c (ii) investments. There is an element of judgement in the choice of assumptions for unquoted investments and it is possible that, if different assumptions were used, different valuations could have been attributed to some of the Company's investments.

The basis of valuation of the investments was unchanged during the year.

The Board and the Investment Manager believe that the valuations as at 31 December 2016 reflect the most appropriate assumptions at that date, giving due regard to all information available from each investee company. Consequently, the variation in the spread of reasonable, possible, alternative valuations is likely to be in the range set out in note 17.

An analysis of venture capital investments between equity and non-equity elements is set out on pages 11, 19, 27 and 35 within the Review of Investments.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

10. Investments (continued)

The following summary shows investments made by the Company in which other funds managed by Downing have also invested. Amounts shown are the original costs of investments.

Company	Cost £'000	Equity held by Other Downing Discretionary Funds Note 1	Equity held by Other Downing Funds Note 2
		%	%
Antelope Pub Limited	1,760	6.6	-
Apex Energy Limited	2,300	54.0 †	-
Atlantic Dogstar Limited	3,700	11.5	-
Augusta Pub Company Limited	870	72.4 †	6.9
Avon Solar Energy Limited	210	48.8	-
Baron House Developments LLP	1,574	-	-
Brownfields Trading Limited	1,150	27.0	50.0
Cheers Dumbarton Limited	48	68.0 †	18.1
City Falkirk Limited	422	68.1 †	18.2
Craft Beer Pub Co Limited	92	-	-
Fenkle Street LLP	122	-	-
Fresh Green Power Limited	200	6.2	6.2
Fubar Stirling Limited	268	68.1 †	18.2
Future Biogas (Reephram Road) Limited	320	28.0	12.5
Gara Rock Resort Limited	2,381	-	-
Goonhilly Earth Station Limited	2,470	33.7	-
Green Energy Production UK Limited	100	6.2	6.2
Hedderwick Limited	1,250	50.0	-
Hermes Renewables Limited	1,000	15.2	-
Indigo Generation Limited	736	25.6	19.2
Ironhide Generation Limited	736	25.6	19.2
Jito Trading Limited	1,500	20.0	50.0
Lambridge Solar Limited	500	7.2	-
Lochrise Limited	13	67.9 †	18.1
London City Shopping Centre Limited	176	15.4	7.3
Merlin Renewables Limited	500	10.4	-
Morava Limited	1,225	25.5	50.0
Mosaic Spa and Health Clubs Limited	521	39.6	23.2
Oak Grove Renewables Limited	420	26.3	16.7
Ormsborough Limited	500	-	-
Pabulum Pubs Limited	600	2.4	2.4
Pearce and Saunders DevCo Limited	46	27.8	37.1
Pearce and Saunders Limited	690	27.8	37.1
Quadrate Catering Limited	1,450	22.4	39.5
Quadrate Spa Limited	1,699	26.4	34.2
Rhodes Solutions Limited	1,375	22.5	50.0
Rockhopper Renewables Limited	590	21.6	16.2
SF Renewables (Solar) Limited	337	7.8	5.9
Vectis Alpha Limited	1,300	24.0	50.0 †
Vulcan Renewables Limited	653	18.2	18.7
Walworth House Pub Limited	1,330	-	-
Westcountry Solar Solutions Limited	250	43.8	-
Yamuna Renewables Limited	1,300	24.0	50.0
Zora Energy Renewables Limited	1,100	54.2 †	-
	<u>39,784</u>		

Note 1: Other Downing Discretionary Funds comprise Downing THREE VCT plc and Downing FOUR VCT plc which are managed under discretionary management agreements by Downing LLP.

Note 2: Other Downing Funds comprise Downing ONE VCT plc which is a self-managed fund where executives of Downing LLP are involved in the management.

† Investment decisions are made by the respective VCT Board of Directors.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

11. Debtors

	2016 £'000	2015 £'000
Prepayments and accrued income	312	879

12. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Corporation tax	114	221
Other taxes and social security	3	3
Accruals and other creditors	369	308
	<u>486</u>	<u>532</u>

13. Called up share capital

	2016 £'000	2015 £'000
Issued, allotted, called up and fully-paid:		
7,126,194 (31 Dec 2015: 7,126,194) 'C' Shares of 0.1p each	7	7
10,724,029 (31 Dec 2015: 10,724,029) 'A' Shares of 0.1p each	11	11
10,000,000 (31 Dec 2015: 10,000,000) 'D' Shares of 0.1p each	10	10
14,950,000 (31 Dec 2015: 14,950,000) 'E' Shares of 0.1p each	15	15
10,810,859 (31 Dec 2015: 10,822,154) 'F' Shares of 0.1p each	11	11
25,352,571 (31 Dec 2015: 25,386,546) 'G' Shares of 0.1p each	25	25
15,739,341 (31 Dec 2015: n/a) 'K' Shares of 0.1p each	16	-
	<u>95</u>	<u>79</u>

During the year a total of 15,739,341 'K' Shares were issued for £1 per share pursuant to the Offer for subscription. The aggregate consideration of the shares was £16.2 million which excludes costs of £448,000.

During the period, the Company repurchased 11,295 'F' Shares and 33,975 'G' Shares for an aggregate consideration of £7,511 and £28,370 respectively, being an average price of 66.5p per 'F' share and 83.5p per 'G' share, which represented 0.1% of the Company's issued 'F' Share Capital and 0.1% of the Company's issued 'G' Share Capital. These shares were subsequently cancelled.

No 'C' Shares, 'D' Shares or 'K' Shares were repurchased during the year.

The Company's capital is managed in accordance with its investment policy as shown in the Strategic Report on page 38, in pursuit of its principal investment objectives as stated on page 2.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

13. Called up share capital (continued)

Any distributions or returns of capital from the assets attributable to the 'C' Shares and 'A' Shares ("C' Share pool") shall be made on the following basis between the holders of the 'C' Shares and 'A' Shares:

- Provided that the performance hurdle is met (i.e. for a shareholding comprising of one 'C' Share and one 'A' Share a total of at least £1 is distributed and a 7% compound return), distributions are made as 91% to 'C' Shares and 9% to 'A' Shares until an amount equivalent to the 100.0p for a shareholding comprising of one 'C' Share and one 'A' Share has been distributed; thereafter
- All distributions will be allocated pro rata to the number of shares held.

Before the 'C' Share pool performance hurdle is met, distributions and returns of capital from the 'C' Share pool will be made to the holders of 'C' Shares and the holders of 'A' Shares in proportion of 999 to 1 respectively being pro rata to the amount subscribed for the shares. Once the 'C' Share pool Hurdle is met, all distributions will be to the holders of the 'C' Shares until the above split of distributions is achieved.

Any distributions or returns of capital from the assets attributable to the 'D' and 'E' Shares ("D' Share pool") shall be made on the following basis between the holders of the 'D' and 'E' Shares:

- Provided that the performance hurdle is met (i.e. for a shareholding comprising of one 'D' Share and one 'E' Share a total of at least £1 is distributed and a 7% compound return), distributions are made as 97% to the 'D' Shares and 3% to the 'E' Shares until an amount equivalent to 100.0p for a shareholding comprising one 'D' Share and one 'E' Share has been distributed; thereafter
- All distributions are made 80% to the 'D' Shares and 20% to the 'E' Shares.

Before the 'D' Share pool performance hurdle is met, distributions and returns of capital from the 'D' Share pool will be made to the holders of 'D' Shares and the holders of 'E' Shares in proportion of 999 to 1 respectively being pro rata to the amount subscribed for the shares. Once the 'D' Share pool Hurdle is met, all distributions will be to the holders of the 'D' Shares until the above split of distributions is achieved.

Any distributions or returns of capital from the assets attributable to the 'F' Share pool shall be made on the following basis between the holders of the 'F' Shares:

The Performance Incentive will only become payable if 'F' Shareholders:

- receive Shareholder Proceeds of at least 100.0p per 'F' Share (excluding initial income tax relief); and
- achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

If the 'F' Share pool Hurdles are met, the Performance Incentive will be 3.0p per 'F' Share plus 20% above 100.0p per 'F' Share of the funds available (for distribution to 'F' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount over the life of each Company equivalent to 7.0p per 'F' Share (based on the number of 'F' Shares in issue at the close of the Offers).

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

13. Called up share capital (continued)

Any distributions or returns of capital from the assets attributable to the 'G' Share pool shall be made on the following basis between the holders of the 'G' Shares:

The Performance Incentive will only become payable if 'G' Shareholders:

- receive Shareholder Proceeds of at least 105.82p per 'G' Share (excluding initial income tax relief); and
- achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on investment) (together the "Hurdles").

If the 'G' Share pool Hurdles are met, the Performance Incentive will be 3.0p per 'G' Share plus 20% above 105.82p per 'G' Share of the funds available (for distribution to 'G' Shareholders and the payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount over the life of each Company equivalent to 7.0p per 'G' Share (based on the number of 'G' Shares in issue at the close of the Offers).

Any distributions or returns of capital from the assets attributable to the 'K' Share pool shall be made on the following basis between the holders of the 'K' Shares:

The Performance Incentive fee in respect of the 'K' Shares will only become payable if 'K' Shareholders:

- have the opportunity to receive Shareholder Proceeds of at least 100p per 'K' Share (excluding initial income tax relief); and
- achieve a tax-free Compound Return of at least 6% per annum (after allowing for income tax relief on the investment) (together the "Hurdles").

If the Hurdles are met, the Performance Incentive will be 20% of the aggregate excess on any amounts distributed by the Company in excess of 100p per 'K' Share (calculated before payment of the Performance Incentive). The Performance Incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount (over the period to when an exit is provided) equivalent to 6.0p per 'K' Share (based on the number of 'K' Shares in issue at the close of the Offer).

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

14. Reserves

	2016	2015
	£'000	£'000
Capital redemption reserve	106	106
Special reserve	33,666	40,086
Share premium reserve	16,170	-
Revaluation reserve	(115)	(1,248)
Capital reserve – realised	(2,254)	(2,252)
Revenue reserve	289	1,962
	<u>47,862</u>	<u>38,654</u>

The Special reserve is available to the Company to enable the purchase of its own shares in the market without affecting its ability to pay capital distributions. The Special reserve, Capital reserve – realised and Revenue reserve are all distributable reserves. The Revaluation reserve includes losses of £1,378,000 which are included in the calculation of distributable reserves. At 31 December 2016, total distributable reserves were £30,323,000 (31 Dec 2015: £37,759,000).

Share premium account

This reserve accounts for the difference between the prices at which shares are issued and the nominal value of the shares and transfers to the other distributable reserves.

Revaluation reserve

Increases and decreases in the valuation of investments held at the year end against cost are included in this reserve.

Capital redemption reserve

This reserve accounts for amounts by which the issued share capital is diminished through the repurchase and cancellation of the Company's own shares.

Capital reserve – realised

The following are disclosed in this reserve:

- gains and losses compared to cost on the realisation of investments; and
- expenses, together with the related taxation effect, charged in accordance with the above accounting policies.

Revenue reserve

This reserve accounts for movements from the revenue column of the Income Statement, the payment of dividends and other non-capital realised movements.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

15. Basic and diluted net asset value per share

	Shares in issue		2016		2015	
	31 Dec 2016	31 Dec 2015	Net asset value per share	Net asset value £'000	Net asset value per share	Net asset value £'000
'C' Shares	7,126,194	7,126,194	-	1	53.9p	3,832
'A' Shares	10,724,029	10,724,029	-	-	0.1p	11
'D' Shares	10,000,000	10,000,000	36.6p	3,647	51.8p	5,171
'E' Shares	14,950,000	14,950,000	0.1p	15	0.1p	15
'F' Shares	10,810,859	10,822,154	69.7p	7,538	71.9p	7,783
'G' Shares	25,352,571	25,386,546	83.5p	21,170	86.3p	21,921
'K' Shares	15,739,341	-	99.0p	15,586	-	-
				<u>47,957</u>		<u>38,733</u>

The 'C' Share pool, 'D' Share pool, 'F' Share pool, 'G' Share pool and 'K' Share pool are treated as separate investment pools. Within the 'C' Share pool the Directors allocate the assets and liabilities of the Company between the 'C' Shares and 'A' Shares such that each share class has sufficient net assets to represent its dividend and return of capital rights. Within the 'D' Share pool the Directors allocate the assets and liabilities of the Company between the 'D' Shares and 'E' Shares such that each share class has sufficient net assets to represent its dividend and return of capital rights.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

16. Reconciliation of return on ordinary activities before taxation to net cash flow from operating activities

Year ended 31 December 2016						
	'C'	'D'	'F'	'G'	'K'	Total
	Share	Share	Share	Share	Share	
	pool	pool	pool	pool	pool	
	£'000	£'000	£'000	£'000	£'000	£'000
(Loss)/return on ordinary activities before taxation	(35)	200	297	693	(193)	962
Corporation tax paid	(36)	(68)	(37)	(95)	12	(224)
Losses on investments	-	(194)	(415)	(476)	-	(1,085)
(Increase)/decrease in prepayments and accrued income	175	280	105	6	(2)	564
(Decrease)/increase in accruals and deferred income	(9)	(22)	(4)	3	96	64
Net cash inflow/(outflow) from operating activities	95	196	(54)	131	(87)	281

Year ended 31 December 2015						
	'C'	'D'	'F'	'G'	'K'	Total
	Share	Share	Share	Share	Share	
	pool	pool	pool	pool	pool	
	£'000	£'000	£'000	£'000	£'000	£'000
Return on ordinary activities before taxation	411	803	134	352	-	1,700
Corporation tax paid	(55)	(68)	(31)	(6)	-	(160)
Loss/(gain) on investments	315	(384)	57	(29)	-	(41)
(Increase)/decrease in prepayments and accrued income	(122)	(147)	14	12	-	(243)
(Decrease)/increase in accruals and deferred income	(8)	(21)	(1)	2	-	(28)
Decrease in amounts due to former subsidiary undertaking	(11)	(29)	(2)	(8)	-	(50)
Net cash inflow from operating activities	530	154	171	323	-	1,178

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

17. Financial instruments

The Company held the following categories of financial instruments at 31 December 2016:

	2016	2015
	Cost	Value
	£'000	£'000
Assets at fair value through profit or loss	39,784	31,365
Other financial (liabilities)/assets	(174)	347
Cash at bank	8,461	7,021
Total	48,071	38,733

The Company's financial instruments comprise investments held at fair value through profit and loss, being equity and loan stock investments in unquoted companies, loans and receivables consisting of short term debtors, cash deposits and financial liabilities, being creditors arising from its operations. The main purpose of these financial instruments is to generate cashflow and revenue and capital appreciation for the Company's operations. The Company has no gearing or other financial liabilities apart from short-term creditors and does not use any derivatives.

The fair value of investments is determined using the detailed accounting policy as shown in note 2. The composition of the investments is set out in note 10.

The fair value of cash deposits and short term debtors and creditors equates to their carrying value in the Balance Sheet.

Loans and receivables and other financial liabilities are stated at amortised cost which the Directors consider is equivalent to fair value.

The Company's investment activities expose the Company to a number of risks associated with financial instruments and the sectors in which the Company invests. The principal financial risks arising from the Company's operations are:

- Market risks
- Credit risk
- Liquidity risk

The Board regularly reviews these risks and the policies in place for managing them. There have been no significant changes to the nature of the risks that the Company is exposed to over the year and there have also been no significant changes to the policies for managing those risks during the year.

The risk management policies used by the Company in respect of the principal financial risks and a review of the financial instruments held at the year end are provided below:

Market risks

As a VCT, the Company is exposed to investment risks in the form of potential losses and gains that may arise on the investments it holds in accordance with its investment policy. The management of these investment risks is a fundamental part of investment activities undertaken by the Investment Manager and overseen by the Board. The Manager monitors investments through regular contact with management of investee companies, regular review of management accounts and other financial information, and attendance at investee company board meetings. This enables the Manager to manage the investment risk in respect of individual investments. Investment risk is also mitigated by holding a diversified portfolio spread across various business sectors and asset classes.

The key investment risks to which the Company is exposed are:

- Investment price risk
- Interest rate risk

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

17. Financial instruments (continued)

Investment price risk

Investment price risk arises from uncertainty about the valuation of financial instruments held in accordance with the Company's investment objectives in addition to the appropriateness of the valuation method used. It represents the potential loss that the Company might suffer through changes in the fair value of unquoted investments that it holds.

At 31 December 2016, the unquoted portfolio was valued at £39,670,000 (31 Dec 2015: £31,365,000). A breakdown of the unquoted portfolio by valuation method used is as follows:

	2016	2015
	£'000	£'000
Price of recent investment	21,496	17,289
Multiples	12,487	5,652
Discounted cash flows or earnings (of underlying business)	2,944	2,904
Discounted cash flows (from the investment)	2,743	5,520
Net assets	-	-
Industry valuation benchmarks	-	-
	<u>39,670</u>	<u>31,365</u>

As many of the Company's unquoted investments are valued using revenue or earnings multiples of comparable companies or sectors, a change in the relevant market sectors could impact on the valuation of the equity investments held in the unquoted portfolio. As unquoted investments are typically structured as partly equity and partly loan notes, investment price risk of the unquoted investments is considered as a whole. A 10% movement in the price of these investments is considered to be a reasonable maximum level in a year and would have an effect as follows:

10% movement in unquoted investment valuations

	Impact on	2016	Impact on	2015
	net assets	Impact on	net assets	Impact on
	£'000	NAV per	£'000	NAV per
		share		share
		Pence		Pence
'C' Shares	-	-	75	5.4p
'D' Shares	238	3.7p	437	5.2p
'F' Shares	721	7.0p	738	7.2p
'G' Shares	2,018	8.4p	1,887	8.6p
'K' Shares	990	9.9p	-	-

The sensitivity analysis for unquoted valuations above assumes that each of the sub-categories of financial instruments (ordinary shares and loan stocks) held by the Company produces an overall movement of 10%. Shareholders should note that equal correlation between these sub-categories is unlikely to be the case in reality, particularly in the case of loan stock instruments. Where share prices are falling, the equity instrument could fall in value before the loan stock instrument. It is not considered practical to assess the sensitivity of the loan stock instruments to investment price risk in isolation.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

17. Financial instruments (continued)

Interest rate risk

The Company accepts exposure to interest rate risk on floating-rate financial assets through the effect of changes in prevailing interest rates. The Company receives interest on its cash deposits at a rate agreed with its bankers. Investments in loan stock attract interest predominately at fixed rates. A summary of the interest rate profile of the Company's investments is shown below.

There are three categories in respect of interest which are attributable to the financial instruments held by the Company as follows:

- "Fixed rate" assets represent investments with predetermined yield targets and comprise certain loan note investments.
- "Floating rate" assets predominantly bear interest at rates linked to Bank of England base rate or LIBOR and comprise cash at bank and liquidity fund investments and certain loan note investments.
- "No interest rate" assets do not attract interest and comprise equity investments and debtors.

	Average interest rate	Average period until maturity	2016 £'000	2015 £'000
Fixed rate	14.2%	552 days	9,943	15,394
Floating rate	0.4%		8,461	7,021
No interest rate			<u>29,553</u>	<u>16,318</u>
			<u>47,957</u>	<u>38,733</u>

The Company monitors the level of income received from fixed and floating rate assets and, if appropriate, may make adjustments to the allocation between the categories, in particular, should this be required to ensure compliance with the VCT regulations.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

17. Financial instruments (continued)

It is estimated that an increase of 1% in interest rates would have increased total return before taxation for the year by £240 for the 'C' Share pool, £13,000 for the 'D' Share pool, £4,000 for the 'F' Share pool, £10,000 for the 'G' Share pool and £58,000 for the 'K' Share pool. As the Bank of England base rate fell for the first time in seven years by 0.25% to 0.25% per annum, it is not believed that a further reduction from this level is likely.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument is unable to discharge a commitment to the Company made under that instrument. The Company is exposed to credit risk through its holdings of loan stock in investee companies, cash deposits and debtors.

The Company's financial assets that are exposed to credit risk are summarised as follows:

	2016	2015
	£'000	£'000
Investments in loan stocks	9,942	15,394
Cash at bank	8,461	7,021
Interest, dividends and other receivables	303	856
	<u>18,706</u>	<u>23,271</u>

The Manager manages credit risk in respect of loan stock with a similar approach as described under "Market risks" above. In addition the credit risk is mitigated for all investments in loan stocks by taking security, covering the full par value of the loan stock in the form of fixed and floating charges over the assets of the investee companies. The strength of this security in each case is dependent on the nature of the investee company's business and its identifiable assets. Similarly the management of credit risk associated with interest, dividends and other receivables is covered within the investment management procedures.

Cash is mainly held by Bank of Scotland plc and Royal Bank of Scotland plc, both of which are A-rated financial institutions and both are also ultimately part-owned by the UK Government. Consequently, the Directors consider that the credit risk associated with cash deposits is low.

There have been no changes in fair value during the year that are directly attributable to changes in credit risk.

Of the investments in loan stock above, as at 31 December 2016 £2,876,000 relates to the principal of loan notes where, although the principal remains within term, the investee company is not fully servicing the interest obligations under the loan note and is thus in arrears.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2016

17. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company encounters difficulties in meeting obligations associated with its financial liabilities. Liquidity risk may also arise from either the inability to sell financial instruments when required at their fair values or from the inability to generate cash inflows as required. As the Company has a relatively low level of creditors, (£486,000, 2015: £532,000) and has no borrowings, the Board believes that the Company's exposure to liquidity risk is low. The Company always holds sufficient levels of funds as cash in order to meet expenses and other cash outflows as they arise. For these reasons, the Board believes that the Company's exposure to liquidity risk is minimal.

The Company's liquidity risk is managed by the Investment Manager in line with guidance agreed with the Board and is reviewed by the Board at regular intervals.

Although the Company's investments are not held to meet the Company's liquidity requirements, the table below shows an analysis of the assets, highlighting the length of time that it could take the Company to realise its assets if it were required to do so.

The carrying value of loan stock investments held at fair value through the profit and loss account at 31 December 2016 as analysed by the expected maturity date is as follows:

As at 31 December 2016	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	60	1,243	178	2,172	-	3,653
Past due loan stock	3,974	741	1,574	-	-	6,289
	<u>4,034</u>	<u>1,984</u>	<u>1,752</u>	<u>2,172</u>	<u>-</u>	<u>9,942</u>

As at 31 December 2015	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	2,994	1,033	175	3,880	-	8,082
Past due loan stock	5,043	454	468	1,347	-	7,312
	<u>8,037</u>	<u>1,487</u>	<u>643</u>	<u>5,227</u>	<u>-</u>	<u>15,394</u>

Of the loan stock classified as "past due" above, as at the balance sheet date, the extent to which the interest giving rise to the classification of the loan notes as past due relates to the principal of loan notes of £560,000, falling within the banding of less than one year, £741,000, falling within the banding of one to two years; and £1,574,000 falling within the banding of two to three years. Notwithstanding the arrears of interest, the Directors do not consider that the maturity of the principal has altered. As at 31 December 2016 the carrying value of loan stock investment held at fair value through the profit and loss account shown above was impaired by £150,000.

Financial liabilities

The Company has no financial liabilities or guarantees, other than the creditors disclosed within the balance sheet (2015: none).

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 December 2016

18. Capital management

The Company defines capital as Shareholders funds and is managed in accordance with its investment policy, as shown in the Strategic Report on page 38, in pursuit of its principal investment objectives as stated on page 2.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for Shareholders and to provide an adequate return to Shareholders by allocating its capital to assets commensurately with the level of risk.

By its nature, the Company has an amount of capital, at least 70% (as measured under the tax legislation) of which is and must be, and remain, invested in the relatively high risk asset class of small UK companies within three years of that capital being subscribed. The Company accordingly has limited scope to manage its capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets. Subject to this overall constraint upon changing the capital structure, the Company may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares, or sell assets if so required to maintain a level of liquidity to remain a going concern.

Although, as the investment policy implies, the Board would consider levels of gearing, there are no current plans to do so. It regards the net assets of the Company as the Company's capital, as the level of liabilities is small and the management of them is not directly related to managing the return to Shareholders. There has been no change in this approach from the previous year.

19. Contingencies, guarantees and financial commitments

At 31 December 2016 and 31 December 2015 the Company had no contingencies, guarantees or financial commitments.

20. Controlling party and related party transactions

In the opinion of the Directors there is no immediate or ultimate controlling party.

EXPLANATION OF AGM RESOLUTIONS

Resolution 9

It is proposed that the Articles of the Company be amended to reduce the administrative burden on the Company as each of its planned exit share classes approaches the end of their respective lifecycles. Currently the board is authorised under the Articles to wind up share classes in which the value has been almost entirely distributed to shareholders, but only with shareholder approval. It is proposed that where the Net Asset Value of a particular class falls below £25,000 or the largest single shareholder in that class holds shares with a net asset value of less than £20, the Board will have the right to convert the remaining shares into deferred shares for repurchase by the Company without further shareholder approval. This will prevent an almost 'empty' share class, with minimal economic value, from persisting inefficiently and incurring fixed costs relating, amongst other things, to maintaining its listing on the London Stock Exchange.

The adoption of the New Articles, with the authority described above, will be voted on by Shareholders at the Annual General Meeting as Resolution 9.

NOTICE OF THE ANNUAL GENERAL MEETING OF DOWNING TWO VCT PLC

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Downing TWO VCT plc will be held at Ergon House, Horseferry Road, London, SW1P 2AL at 10:45 a.m. on 20 June 2017 for the transaction of the following business:

As **Ordinary Business**, to consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

1. To receive and adopt the Report of the Directors and Accounts of the Company for the year ended 31 December 2016, together with the report of the Auditor thereon.
2. To approve the Directors' Remuneration Report.
3. To approve the Directors Remuneration policy.
4. To approve a final dividend of 2.5p per 'F' Share and 2.5p per 'G' Share.
5. To reappoint BDO LLP as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts of the Company are presented and to authorise the Directors to determine the Auditor's remuneration.
6. To re-elect as Director, Hugh Gillespie, who retires in accordance with company policy and, being eligible, offers himself for re-election.
7. To re-elect as Director, Dennis Hale, who retires in accordance with company policy and, being eligible, offers himself for re-election.

Special Resolution

8. THAT, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of 'D' shares of 0.1p each ("D' Shares"), 'E' shares of 0.1p each ("E' Shares"), 'F' Shares of 0.1p each ("F' Shares") and 'G' Shares of 0.1p each ("G' Shares") in the capital of the Company provided that:
 - (i) the maximum number of 'D' Shares, 'E' Shares, 'F' Shares, 'G' Shares and 'K' Shares hereby authorised to be purchased is: 1,490,000, being 14.9 per cent. of the issued 'D' Shares; 2,227,550, being 14.9 per cent. of the issued 'E' Shares; 1,610,818, being 14.9 per cent. of the issued 'F' Shares; 3,777,533, being 14.9 per cent. of the issued 'G' Shares; and 2,345,162, being 14.9 per cent. of the issued 'K' Shares at such time;
 - (ii) the minimum price which may be paid for a 'D' Share, 'E' Share, 'F' Share, 'G' Share or a 'K' Share is its respective nominal value;
 - (iii) the maximum price which may be paid for a 'D' Share, 'E' Share, 'F' Share, 'G' Share or a 'K' Share, is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the 'D' Shares, 'E' Shares, 'F' Shares, 'G' Shares and 'K' Shares as derived from the Daily Official List of the London Stock Exchange, for each of the five business days immediately preceding the day on which the 'D' Share, 'E' Share, 'F' Share, 'G' Share or 'K' Share is contracted to be purchased;

NOTICE OF THE ANNUAL GENERAL MEETING OF DOWNING TWO VCT PLC (continued)

- (iv) the Company may make a contract to purchase a 'D' Share, 'E' Share, 'F' Share, 'G' Share or a 'K' Share under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may validly make a purchase of 'D' Shares, 'E' Shares, 'F' Shares, 'G' Shares and 'K' Shares in pursuance of any such contract;

and this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the Annual General Meeting of the Company next following the passing of this Resolution or, if earlier, on the expiry of 15 months from the passing of this resolution.

9. THAT, in order to, inter alia, authorise the board to wind up share classes with a de minimus net asset value, the articles of association produced to the meeting and signed by the Chairman for the purposes of identification (the "New Articles") be adopted in substitution for the Company's existing Articles of Association.

By order of the Board



Grant Whitehouse
Company Secretary

Registered Office
Ergon House
Horseferry Road
London
SW1P 2AL

26 April 2017

NOTICE OF THE ANNUAL GENERAL MEETING

Notes

- (a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the Act, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:
- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
 - the answer has already been given on a website in the form of an answer to a question; or
 - it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.
- (b) To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, Ergon House, Horseferry Road, London, SW1P 2AL or electronically at proxy@downing.co.uk, in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.
- (c) In order to revoke a proxy instruction a member will need to inform the Company using one of the following methods:
- by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Downing LLP, Ergon House, Horseferry Road, London, SW1P 2AL. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
 - by sending an e-mail to proxy@downing.co.uk.
- In either case, the revocation notice must be received by Downing LLP before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.
- (d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- (e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the shares of the Company, will be available for inspection at the registered office of the Company during usual business hours on any weekday (excluding weekends and public holidays) from the date of this notice, until the end of the Annual General Meeting for at least 15 minutes prior to and during the meeting.
- (f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 10.45 a.m. on 16 June 2017 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 10.45 a.m. on 16 June 2017 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

NOTICE OF THE ANNUAL GENERAL MEETING (continued)

Notes (continued)

- (g) As at 9.00 a.m. on 26 April 2017, the Company's issued share capital comprised 10,000,000 'D' Shares, 14,950,000 'E' Shares, 10,810,859 'F' Shares, 25,352,571 'G' Shares and 15,739,341 'K' Shares and the total number of voting rights in the Company was 61,902,771. The website referred to above will include information on the number of shares and voting rights.
- (h) If you are a person who has been nominated under section 146 of the Act to enjoy information rights ("Nominated Person"):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
 - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights; and
 - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- (j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- (k) Except as provided above, members who have general queries about the Annual General Meeting should write to the Chairman at the registered office set out above.
- (l) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.

FORM OF PROXY

DOWNING TWO VCT PLC

For use at the Annual General Meeting of the above-named Company to be held on 20 June 2017, at Ergon House, Horseferry Road, London, SW1P 2AL at 10:45 a.m.

I/We* (in BLOCK CAPITALS please)

of
 being the holder(s)* of 'D' Shares, 'F' Shares or 'G' Shares or 'K' Shares of 0.1p each in the capital of the above-named Company, hereby appoint the Chairman of the meeting (see note 1)

or.....

of.....
 as my/our* proxy to attend for me/us* on my/our* behalf at the Annual General Meeting of the Company to be held at Ergon House, Horseferry Road, London, SW1P 2AL on 20 June 2017 or at any adjournment thereof.

I/We* desire to vote on the resolutions as indicated in the appropriate column below.
 Please indicate with an "X" how you wish your vote to be cast.

Details of the resolutions are set out in the Notice of the Annual General Meeting.

ORDINARY BUSINESS	FOR	AGAINST	WITHHELD
1. To receive and adopt the Directors' Report and Accounts.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve the Directors' Remuneration Report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the Directors' Remuneration policy.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To approve final dividend payments of 2.5p per 'F' Share and 2.5p per 'G' Share.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To reappoint the Auditor and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect Hugh Gillespie as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect Dennis Hale as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SPECIAL BUSINESS			
8. To authorise the Company to make market purchases of its shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. To amend the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature(s) **Date:**.....2017

* Delete as appropriate

If you are unable to attend the AGM and wish to put any comments to the Board, please use the box below.

PLEASE RETURN TO DOWNING LLP IN THE PRE-PAID ENVELOPE PROVIDED



NOTES AND INSTRUCTIONS:

1. Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
2. Delete "the Chairman of the meeting" if it is desired to appoint any other person and insert his or her name and address. If no name is inserted, the proxy will be deemed to have been given in favour of the Chairman of the meeting. If this Form of Proxy is returned without stating how the proxy shall vote on any particular matter the proxy will exercise his discretion as to whether, and if so how, he votes.
3. Any alterations to the Form of Proxy should be initialled.
4. To be valid, this Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, Ergon House, Horseferry Road, London, SW1P 2AL not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in this Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, and be delivered at the meeting at which the demand is made.
5. In the case of a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised on that behalf.
6. In the case of joint holders, the vote of the senior holder tendering a vote will be accepted to the exclusion of the votes of the other joint holders. Seniority depends on the order in which the names stand in the register of members.
7. The completion and return of this Form of Proxy will not preclude you from attending and voting at the Annual General Meeting should you subsequently decide to do so. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
8. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.



Ergon House
Horseferry Road
London SW1P 2AL

020 7416 7780
contact@downing.co.uk
www.downing.co.uk



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